

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the section headed “Definitions and Glossary of Technical Terms” in this document.

BUSINESS OVERVIEW

We are a Singapore-based contractor specialised in the medical and healthcare sectors with expertise in performing radiation shielding works. We mainly provide integrated design and building services for hospitals and clinics in Singapore. To a lesser extent, we are also engaged in providing maintenance and other services, as well as sales of tools and materials. The following table sets forth a breakdown of our revenue during the Track Record Period by business operations:

	FY2014/15		FY2015/16		FY2016/17	
	Revenue S\$'000	% of total revenue	Revenue S\$'000	% of total revenue	Revenue S\$'000	% of total revenue
Integrated design and building services	12,869	97.2	9,331	95.3	14,571	97.6
Maintenance and other services	324	2.4	367	3.7	330	2.2
Sales of tools and materials	<u>51</u>	<u>0.4</u>	<u>95</u>	<u>1.0</u>	<u>36</u>	<u>0.2</u>
Total	<u>13,244</u>	<u>100.0</u>	<u>9,793</u>	<u>100.0</u>	<u>14,937</u>	<u>100.0</u>

Integrated design and building services

We are experienced in undertaking turnkey solutions projects which comprise (i) preparation and consultation on building design and specifications, including in particular those involving irradiating medical equipment; (ii) performance of building works (mainly including radiation shielding works, M&E works and fitting-out works); and (iii) assisting to obtain statutory approvals and certifications for the building works.

Based on the types of medical facilities and, if necessary, irradiating medical equipment involved, we would prepare the design and specifications in relation to our radiation shielding and other related building works, and submit them for our customers’ approval before commencement of the project. Depending on the nature of works to be carried out, our design and specifications may be submitted to registered professional engineer and/or licensed electrical worker for endorsement before project implementation.

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In particular, our radiation shielding works mainly involve: (i) procurement of appropriate radiation shielding materials according to customers' specifications; (ii) fabrication of door frames and wall structures with the radiation shielding materials; and (iii) delivery and installation of the fabricated products at relevant work sites. The fabrication process of our radiation shielding products are mainly performed at the workshop in our headquarters. Our M&E works typically refer to the supply, installation, testing and commissioning of various types of systems, including (i) ACMV system; (ii) chiller system; (iii) electrical system; (iv) plumbing, sanitary and drainage system; (v) medical gas and suction system; (vi) data communication system; and (vii) fire protection system. Our fitting-out works typically refer to demolition works, carpentry works, structural works and other finishing works relating to ceiling, floor and walls.

Maintenance and other services

Our maintenance services generally comprise conducting examinations, replacement of parts and repair works (if necessary) in relation to the radiation shielding works and M&E works completed by us for a fixed term typically on a yearly basis. Our other ancillary services generally include minor renovation and installation works, dismantling and disposal of used medical equipment, removal of construction waste materials, and cleaning of the work sites upon completion of building works. We also provide radiation shielding-related consultancy services which include provision of technical advice based on reports submitted to us by our customers for the testing results of their radiation shielding works.

Sales of tools and materials

During the Track Record Period, a minor portion of our revenue is derived from the sale of tools and materials (such as radiation shielding products fabricated by us, signage boards, lead sheet and lead glass) mainly to medical service providers and medical equipment vendors on a case-by-case basis.

Our customers

Our customers during the Track Record Period mainly included (i) multinational medical equipment vendors; (ii) medical service providers in Singapore including hospitals and clinics; and (iii) construction contractors engaged by project employers including the Singapore Government or medical service providers. For each of FY2014/15, FY2015/16 and FY2016/17, the number of customers for our integrated design and building services with revenue contribution to our Group was 46, 51 and 63, respectively. The following table sets forth a breakdown of our revenue derived from our integrated design and building services during the Track Record Period by reference to the category of our customers:

	FY2014/15		FY2015/16		FY2016/17	
	S\$'000	%	S\$'000	%	S\$'000	%
Medical equipment vendors	8,077	62.8	8,652	92.7	7,482	51.4
Medical service providers	4,310	33.5	306	3.3	3,383	23.2
Construction contractors	<u>482</u>	<u>3.7</u>	<u>373</u>	<u>4.0</u>	<u>3,706</u>	<u>25.4</u>
Total	<u>12,869</u>	<u>100.0</u>	<u>9,331</u>	<u>100.0</u>	<u>14,571</u>	<u>100.0</u>

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In general, where a medical service provider has decided on the medical equipment required in its facilities proposed to be put into operation, it would normally invite medical equipment vendors to participate in project tenders. The selected vendor would typically be responsible for (i) supplying and installing the relevant medical equipment; and (ii) ensuring the completion of all the related design and building works to facilitate the installation and functioning of such equipment. As a common industry practice, the medical equipment vendor would arrange to supply and install the equipment on its own, and subcontract the entire design and building works to a construction contractor (such as our Group).

Our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) our subcontractors; (ii) suppliers of building and radiation shielding materials; and (iii) suppliers of other miscellaneous services including services provided by third party professionals (such as surveying services and testing services), transportation service and rental of lifting machinery and equipment.

Our major licences and registrations

Hwa Koon, our principal operating subsidiary, is registered under the workheads of CW01 (General Building) with “C1” grade, ME01 (Air-Conditioning, Refrigeration and Ventilation Works) with “L2” grade and ME11 (Mechanical Engineering) with “L1” grade under the CRS maintained by the BCA. Hwa Koon also holds a GB1 Licence granted by the BCA and a “L1” license issued by the RPNSD to possess for sale or deal in specified types of used ionising irradiating apparatus. For further details, please refer to the paragraph headed “Licences and registrations” below in this section.

COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

According to the Ipsos Report, the total output value of the construction of medical-related facilities in Singapore is forecasted to increase from approximately S\$2.3 billion in 2017 to approximately S\$3.1 billion in 2021, representing a CAGR of approximately 7.8%. Ipsos advised that the total output value of the medical-related construction industry in respect of radiation shielding works in Singapore and the financial information of the aforesaid active industry players are not available, the market share of our Group and the ranking of the industry players cannot be reliably ascertained.

We believe that our competitive strengths include: (i) our expertise in undertaking turnkey solutions projects in hospitals and clinics; (ii) our established track record in the medical-related construction industry in Singapore; (iii) our established relationships with some of our major customers; (iv) our stringent quality control and high safety standard and environmental impact control; and (v) our experienced and dedicated management team.

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BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) acquiring an additional property for workshop and office use in order to accommodate the planned expansion of our manpower and to secure more spaces for the fabrication of our radiation shielding products; (ii) strengthening our manpower by recruiting additional staff in order to reduce our needs for subcontracting services and the associated expenses incurred therefrom and to increase our in-house capacity in undertaking more integrated design and building services projects; (iii) increasing our reserve for financing the issue of performance guarantees in favour of our customers; (iv) financing the acquisition of additional motor vehicles to accommodate the increase in transportation needs of our workers resulting from our planned expansion of manpower and additional machinery to carry out lifting and carpentry works; and (v) increasing our marketing efforts. For further information, please refer to the section headed “Business – Business strategies” in this document.

SALES AND MARKETING AND PRICING STRATEGY

During the Track Record Period, we secured new businesses mainly through direct invitations for tender or quotation by customers. Our Directors consider that due to our proven track record and our relationship with existing customers, we are able to leverage our existing customer base and our reputation in the medical-related construction industry in Singapore such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management.

Our pricing is generally determined based on certain mark-up over our estimated costs, having regard to various factors such as the expected cost in direct relation to the project, the overhead costs and the prevailing market conditions. For further information, please refer to the paragraph headed “Business – Pricing strategy” in this document.

RISK FACTORS

Potential investors are advised to carefully read the section headed “Risk factors” in this document before making any investment decision in the [REDACTED]. Some of the more particular risk factors include the following: (i) a significant portion of our revenue was generated from contracts awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial condition and operating results; (ii) our revenue is mainly derived from our integrated design and building services for which our engagements with our customers are non-recurrent in nature and there is no guarantee that we will be able to secure new projects; (iii) reduction in the level of Singapore Government’s spending on the construction of medical related buildings or facilities may materially and adversely affect our business and financial position; (iv) any defects in our radiation shielding works may adversely affect our industry reputation and relationships with our customers; (v) failure to renew or any suspension or cancellation of any of our existing licences and registrations could materially affect our operations and financial performance; (vi) inability to attract and/or retain management staff will adversely affect our operations and financial performance; and (vii) we experienced a decline in our total revenue and gross profit in FY2015/16.

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FOREIGN EMPLOYEES

During the Track Record Period, we employed foreign employees from India, Malaysia, Bangladesh and the PRC. Our foreign workers are sourced and recruited through recruiting agencies. The employment of foreign workers is subject to various rules and regulations in Singapore, including but not limited to (i) the dependency ceilings based on the ratio of local to foreign workers; (ii) the quotas based on man year entitlements in respect of workers from NTS and the PRC; and (iii) security bonds requirements for non-Malaysian foreign workers. For further details, please refer to the section headed “Regulatory Overview – Employment matters” in this document.

Based on the latest information available from the MOM database as at the Latest Practicable Date, Hwa Koon has utilised 22 of the quota balance for foreign workers, among which 16 were holders of work permits and 6 were holders of S Passes. Based on the ratio of one full-time local worker to seven foreign workers, the maximum number of foreign workers Hwa Koon can hire is 119, which means that we can hire 97 additional foreign workers based on the dependency ceilings.

CUSTOMER CONCENTRATION

For each of FY2014/15, FY2015/16 and FY2016/17, the percentage of our total revenue attributable to our top customer amounted to approximately 23.3%, 30.3% and 24.2%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 83.6%, 82.0% and 68.2%, respectively. Our Directors consider that our Group’s business model is sustainable despite such customer concentration, which is discussed in detail in the section headed “Business – Customers – Customer concentration” in this document.

KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data during the Track Record Period:

	FY2014/15 or as at 30 June 2015	FY2015/16 or as at 30 June 2016	FY2016/17 or as at 30 June 2017
<i>(Expressed in S\$'000 except tender data and financial ratios)</i>			
Results of operations			
Revenue	13,244	9,793	14,937
Gross profit	5,273	3,606	6,505
Profit before taxation	4,120	3,021	6,069
Profit for the year	3,467	2,681	5,151
Tender success rate			
Number of projects for which we have submitted tenders or quotation	60	76	93
Number of projects awarded ^(Note 1)	47	57	67
Success rate ^(Note 1)	78.3%	75.0%	72.0%
Financial position			
Non-current assets	662	686	747
Current assets	6,129	6,853	9,759
Non-current liability	14	17	26
Current liabilities	3,194	2,654	2,365
Net current asset	<u>2,935</u>	<u>4,199</u>	<u>7,394</u>
Total equity	<u>3,584</u>	<u>4,869</u>	<u>8,115</u>

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	FY2014/15 or as at 30 June 2015	FY2015/16 or as at 30 June 2016	FY2016/17 or as at 30 June 2017
<i>(Expressed in S\$'000 except tender data and financial ratios)</i>			
Key financial ratio			
Gross profit margin	39.8%	36.8%	43.6%
Net profit margin	26.2%	27.4%	34.5%
Return on equity	96.7%	55.1%	63.5%
Return on total assets	51.0%	35.6%	49.0%
Current ratio	1.9	2.6	4.1
Trade receivables turnover days	53.9	75.8	68.6
Trade payables turnover days	12.3	30.4	41.8
Gearing ratio <i>(Note 2)</i>	45.6%	14.8%	0.0%
	FY2014/15	FY2015/16	FY2016/17
	<i>S\$'000</i>	<i>S\$'000</i>	<i>S\$'000</i>
Net cash from operating activities	3,482	1,564	3,684
Net cash (used in)/from investing activities	(4)	(2,057)	1,953
Net cash used in financing activities	<u>(1,469)</u>	<u>(2,163)</u>	<u>(2,721)</u>
Net increase/(decrease) in cash and cash equivalents	2,009	(2,656)	2,916
Cash and cash equivalents at beginning of year	<u>1,743</u>	<u>3,752</u>	<u>1,095</u>
Cash and cash equivalents at end of year	<u><u>3,752</u></u>	<u><u>1,095</u></u>	<u><u>4,011</u></u>

Notes:

1. In the above table, success rate for a financial year is calculated based on the number of projects awarded (whether awarded in the same financial year or subsequently) in respect of the tenders or quotations submitted during that financial year.
2. Gearing ratio is calculated as total borrowings (including finance lease liabilities and amounts due to related parties and directors) divided by the total equity as at the respective reporting dates.

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Our gross profit amounted to approximately S\$5.3 million and approximately S\$3.6 million for FY2014/15 and FY2015/16 respectively, representing a decrease of approximately 32.1%, and our gross profit margin decrease from approximately 39.8% in FY2014/15 to approximately 36.8% in FY2015/16. Our revenue decreased from approximately S\$13.2 million for FY2014/15 to approximately S\$9.8 million for FY2015/16, representing a decrease of 25.8%. The decrease in our gross profit and the decrease in our gross profit margin were primarily due to (i) there was a decrease in the number of projects with revenue contribution in FY2015/16; and (ii) the decrease in our revenue in FY2015/16 was in line with the industry trend.

Our gross profit amounted to approximately S\$3.6 million and approximately S\$6.5 million for FY2015/16 and FY2016/17 respectively, representing an increase of approximately 80.5%, while our gross profit margin increased from approximately 36.8% in FY2015/16 to approximately 43.5% in FY2016/17. Our revenue increased from approximately S\$9.8 million for FY2015/16 to approximately S\$14.9 million for FY2016/17, representing an increase of 52.0%. The increase in our gross profit and the increase in our gross profit margin for FY2016/17 were primarily due to (i) the increase in our revenue; and (ii) we set our quotations and tender prices based on a relatively higher expected margin in FY2016/17 in view of the increased demand for our services. Such increase was mainly attributable to (i) our increased efforts in pursuing projects of relatively larger scales and higher income; and (ii) there was an increase in demand for our integrated design which was mainly driven by the Singapore Government’s progressive planning of its healthcare facilities developments to meet growing demands for healthcare needs, in particular the redevelopment projects of medical-related facilities.

For further discussion on our performance during the Track Record Period, please refer to the section headed “Financial information” in this document.

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), each of our ultimate Controlling Shareholders, Mr. Ang, Mr. Ong and Mr. Koh, acting in concert as a group of Controlling Shareholders and through Skylight Illumination, indirectly held in aggregate [REDACTED] interest in our Company. Please refer to the section headed “Relationship with our Controlling Shareholders” in this document for further details.

Mr. Ang is the chairman of our Company and a non-executive Director. Mr. Koh is our chief executive officer and executive Director. Mr. Ong is our executive Director. Please refer to the section headed “Directors and senior management” in this document for the biographical information of Mr. Ang, Mr. Koh and Mr. Ong.

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LITIGATION AND CLAIMS

During the Track Record Period, we were involved in a number of concluded cases, including (i) one contractual claim commenced by us against our customer in relation to the recovery of payment overdue for the sum of S\$77,000; (ii) two negligence claims commenced by independent third parties in relation to two motor vehicle accidents which involved the alleged negligence of our workers whilst driving our motor vehicles, causing the accidents and resulting in death and/or injury to the independent third parties; and (iii) one work injury claim filed by an injured worker against us in relation to a workplace accident. For further details, please refer to the section headed “Business – Litigation and claims – Concluded cases” in this document.

[REDACTED] STATISTICS

Number of the
[REDACTED] : [REDACTED] Shares

[REDACTED] : Not more than HK\$[REDACTED] per [REDACTED] and is expected to be not less than HK\$[REDACTED] per [REDACTED] (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

	Based on an [REDACTED] of HK\$[REDACTED] HK\$	Based on an [REDACTED] of HK\$[REDACTED] HK\$
Market capitalisation	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted combined net tangible assets per Share attributed to the Shareholders ^(Note)	[REDACTED]	[REDACTED]

Note: Please refer to Appendix II to this document for the bases and assumptions in calculating this figure.

[REDACTED] EXPENSES

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately HK\$[REDACTED] million. Out of the amount of approximately HK\$[REDACTED] million, approximately HK\$[REDACTED] million is directly attributable to the issue of the [REDACTED] and is expected to be accounted for as a deduction from equity upon [REDACTED]. The remaining amount of approximately HK\$[REDACTED] million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately HK\$[REDACTED] million that shall be charged to profit or loss, [REDACTED] has been charged during the Track Record Period, and approximately HK\$[REDACTED] million is expected to be incurred for FY2017/18. Expenses in relation to the [REDACTED] are non-recurring in nature. Our Group’s financial performance and results of operations for FY2017/18 will be affected by the estimated expenses in relation to the [REDACTED].

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FUTURE PLANS AND [REDACTED]

The net proceeds to be received by us from the [REDACTED] based on the [REDACTED] of HK\$[REDACTED] per Share being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] to HK\$[REDACTED] per [REDACTED], after deducting related expenses in connection with the [REDACTED], are estimated to be approximately HK\$[REDACTED] million. Our Directors presently intend that the net proceeds will be applied as follows: (i) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used for the acquisition of an additional property for workshop and office use; (ii) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used for strengthening our manpower by recruiting additional staff; (iii) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used for increasing our reserve for financing the issue of performance guarantees in favour of our customers; (iv) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used for financing the acquisition of additional motor vehicles and machinery; (v) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used for increasing our marketing efforts; and (vi) approximately HK\$[REDACTED] million, representing approximately [REDACTED]% of the estimated net proceeds, will be used as our general working capital.

DIVIDEND

For each of FY2014/15, FY2015/16 and FY2016/17, we declared dividends of S\$2.5 million, S\$1.3 million and S\$2.0 million respectively to our then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

RECENT DEVELOPMENT

The aggregate number of our integrated design and building projects on hand as at 1 July 2017 (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) and projects that were awarded to us from 1 July 2017 to the Latest Practicable Date was 14. Out of the 14 projects, 9 projects were completed as at the Latest Practicable Date For the remaining 5 projects which represented projects in our

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backlog as at the Latest Practicable Date, a total amount of S\$1.2 million was recognised as our revenue during the Track Record Period and it is estimated that a total amount of approximately S\$3.0 million will be recognised as our revenue for FY2017/18.

According to the Ipsos Report, the Singapore Government has announced for the commencement of additional healthcare facilities projects which will commence in 2017, which include a new national cancer centre, an integrated intermediate care hub at Jalan Tan Tock Seng and an extensive redevelopment and expansion master plan for the Singapore General Hospital Campus which will span across the next two decades. New clean rooms and radiology-related facilities may be required in the new healthcare facilities and thus driving the demand for medical-related construction services in respect of radiation shielding works. The total output value of the construction of medical-related facilities in Singapore is forecasted to increase from approximately S\$2.3 billion in 2017 to approximately S\$3.1 billion in 2021, representing a CAGR of approximately 7.8%. In view of the forecasted increase in demand for integrated design and building services for the medical and healthcare sectors in Singapore in the coming years, our Directors expect that we will obtain a growth in the number of projects requiring radiation shielding works.

Our Directors confirm that, save for the expenses in connection with the [REDACTED], up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since the 1 July 2017 and there had been no events since 1 July 2017 which would materially affect the information shown in our combined financial information included in the accountant’s report set out in Appendix I to this document.

REASONS FOR [REDACTED]

Our Directors believe that the [REDACTED] will benefit our Group as it will (i) allow our Group to gain access to equity capital market funding; and (ii) increase the profile of our Group and enable our Group to be considered more favourably by our customers, suppliers and bankers, given that a [REDACTED] company is subject to ongoing regulatory compliance for announcements, financial disclosure and corporate governance. In addition, we intend to implement our business strategies and future plans as detailed in this section and the paragraph headed “Business – Business strategies” in this document, which require funding and are intended to be financed by the proceeds from the [REDACTED].

Our Directors had considered and evaluated different [REDACTED] venues including Hong Kong and Singapore and have concluded that Hong Kong is the suitable venue to pursue a listing after taking into account the liquidity of the stock market in Hong Kong. For further details, please refer to the paragraph headed “Future plans and [REDACTED] – Reasons for [REDACTED]” in this document.