

Maxicity Holdings Limited

豐城控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

Stock code on GEM: 8216
Stock code on Main Board: 2295

TRANSFER OF LISTING FROM GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Sponsor

SUNWAH KINGSWAY
新華滙富
KINGSWAY CAPITAL LIMITED

Financial Adviser



IMPORTANT

You are advised to exercise caution when reading this document. If you are in any doubt about any of the contents of this listing document, you should obtain independent professional advice.

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This listing document is published in connection with the Transfer of Listing and contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Main Board Listing Rules solely for the purpose of giving information with regard to our Group and the Transfer of Listing.

This listing document does not constitute an offer of, nor is it calculated to invite offers for, Shares or other securities of our Company, nor have any such Shares or other securities been allotted or issued with a view to any of them being offered for sale to or subscription by the public. No Shares will be allotted or issued in connection with, or pursuant to, this listing document.

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The Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state in the United States, and may not be offered, sold, pledged or transferred within the United States or to or for the account or benefit of any U.S. persons, absent any registration or except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. **Neither the U.S. Securities and Exchange Commission nor any other U.S. federal or state securities commission or regulatory authority has approved or disapproved of the Shares or passed an opinion on the adequacy of this listing document. Any representation to the contrary is a criminal offence in the United States.**

Your attention is drawn to the section headed "Risk Factors" in this listing document.

Information regarding the proposed arrangements for the Transfer of Listing and dealings and settlement of dealings in, the Shares following completion of the Transfer of Listing is set out in the section headed "Information about this Listing Document and the Transfer of Listing" in this listing document.

EXPECTED TIMETABLE⁽¹⁾

Event	Date⁽¹⁾
Last day of dealing in the Shares on GEM of the Stock Exchange (stock code: 8216)	Thursday, 30 December 2021
First day of dealings in the Shares on the Main Board of the Stock Exchange ⁽²⁾⁽³⁾ to commence at 9:00 a.m. on	Friday, 31 December 2021

Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated.
2. The Shares will be traded on the Main Board under the new stock code 2295 following the Transfer of Listing.
3. The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes, and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in a board lot of 5,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of our Company is Conyers Trust Company (Cayman) Limited and the Hong Kong Branch Share Registrar and transfer office of our Company is Boardroom Share Registrars (HK) Limited. No change will be made to the English and Chinese stock short names of our Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of our Company following the Transfer of Listing.

If there is any change in the expected timetable or if the Transfer of Listing does not proceed, our Company will make an announcement as soon as practicable thereafter.

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You should rely only on the information contained in this listing document to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this listing document. Any information or representation not contained or made in this listing document must not be relied on by you as having been authorised by our Company, the Sponsor, any of our or their respective directors, officers, affiliates, employees, agents or representatives or any other person or party involved in the Transfer of Listing.

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SUMMARY

This summary aims to give you an overview of the information contained in this listing document. As this is a summary, it does not contain all the information that may be important to you. Shareholders of our Company and potential investors are advised to exercise caution when dealing in the Shares of our Company and read this listing document in its entirety.

There are risks associated with any investment. Some of the particular risks in investing in the Shares of our Company are set out in the section headed “Risk Factors” in this listing document. Shareholders of our Company and potential investors are advised to exercise caution when dealing in the Shares of our Company. Various expressions used in this summary are defined in the section headed “Definitions and Glossary of Technical Terms” in this listing document.

BUSINESS OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. Our Group has been listed on GEM since 13 December 2019. According to the Industry Report, we were ranked as the third largest player (in terms of revenue) in the slope works industry in Hong Kong in 2020, and accounted for approximately 12.0% market share of the slope works industry.

The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls. We are specialised in providing integrated slope works services and are experienced in undertaking different kinds of slope works which mainly comprise (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also provide design-and-build services, such as slope upgrading and slope remedial works.

Since the GEM Listing, we have continued to strengthen our market presence and competitiveness in the slope works industry. In particular, A-City Workshop, our principal operating subsidiary, has successfully registered as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” in June 2020. Our status as a Probationary Contractor has broadened the source of our projects, including (i) Government contracts which require Approved Specialist Contractor as main contractor; and (ii) Government contracts which require Approved Specialist Contractor as subcontractor.

In addition, A-City Workshop is a Registered Specialist Trade Contractor under reinforcement bar fixing (Group 1), concreting formwork (Group 1) and concreting (Group 1) and a Registered Subcontractor in general civil works with specialty of earthwork and geotechnical works of the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. A-City

SUMMARY

Workshop is also registered with the Building Authority as a Registered General Building Contractor and a Registered Specialist Contractor under the sub-register of “site formation works”. For further details, please refer to the paragraph headed “Business – Licences and registrations” in this listing document.

Projects undertaken during the Track Record Period

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. We acted as a subcontractor in most of our projects during the Track Record Period. In respect of public sector projects, our customers were generally main contractors which are engaged by different Government authorities, including the CEDD, the Lands Department, the Water Supplies Department, the Architectural Services Department and the Housing Authority. In respect of private sector projects, our customers were generally main contractors engaged by private property owners. To a lesser extent, we were on occasions engaged directly by private property owners as main contractor.

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects and by reference to our role in the projects:

	FY2018			FY2019			FY2020		
	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue	No. of projects	Revenue HK\$'000	% of total revenue
Public sector									
– As sub-contractor	11	106,045	95.3	12	149,812	81.5	16	239,915	86.9
Private sector									
– As sub-contractor	4	5,000	4.5	6	34,091	18.5	11	34,939	12.7
– As main contractor	1	200	0.2	–	–	–	1	1,152	0.4
Sub-total	<u>5</u>	<u>5,200</u>	<u>4.7</u>	<u>6</u>	<u>34,091</u>	<u>18.5</u>	<u>12</u>	<u>36,091</u>	<u>13.1</u>
Total	<u>16</u>	<u>111,245</u>	<u>100.0</u>	<u>18</u>	<u>183,903</u>	<u>100.0</u>	<u>28</u>	<u>276,006</u>	<u>100.0</u>

	Six months ended 30 June					
	No. of projects	2020 Revenue HK\$'000 (Unaudited)	% of total revenue	No. of projects	2021 Revenue HK\$'000	% of total revenue
Public sector						
– As sub-contractor	14	111,225	92.0	17	139,178	89.9
Private sector						
– As sub-contractor	7	9,619	8.0	7	13,692	8.9
– As main contractor	–	–	–	3	1,921	1.2
Sub-total	<u>7</u>	<u>9,619</u>	<u>8.0</u>	<u>10</u>	<u>15,613</u>	<u>10.1</u>
Total	<u>21</u>	<u>120,844</u>	<u>100.0</u>	<u>27</u>	<u>154,791</u>	<u>100.0</u>

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Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised				
HK\$10.0 million or above	4	6	9	5
HK\$5.0 million to below HK\$10.0 million	2	2	1	4
HK\$1.0 million to below HK\$5.0 million	6	5	8	6
Below HK\$1.0 million	4	5	10	12
Total	16	18	28	27

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
Number of projects for which we have submitted tenders	17	21	27	19 ^(Note2)
– Public sector	13	12	13	8
– Private sector	4	9	14	11
Number of projects awarded ^(Note 1)	9	11	16	10
– Public sector	6	7	6	4
– Private sector	3	4	10	6
Success rate (%) ^(Note 1)	52.9	52.4	59.3	52.6

Notes:

- In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.
- Out of the 19 projects for which we submitted tenders in the six months ended 30 June 2021, the result of one project was pending as at the Latest Practicable Date.

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Leveraging the expansion in our service capacity in terms of manpower and machinery as well as our available financial resources upon the implementation of our business expansion plans following our GEM Listing, our Group has actively approached our existing and potential customers for potential business opportunities and tendered for slope works projects more actively as demonstrated by the increase in number of tenders submitted by our Group from 21 for FY2019 to 27 for FY2020. Further, our executive Directors consider that the expansion in the scale of our in-house resources has given us flexibility in charging a more competitive pricing, resulting in the increase in number of projects awarded to our Group from 11 for FY2019 to 16 for FY2020^(Note).

The number of our tendered and awarded projects in the public sector remained relatively stable throughout the Track Record Period. Meanwhile, the number of our tendered projects and awarded projects in the private sector increased significantly from FY2019 to FY2020^(Note). Our executive Directors consider that the increase in number of private sector projects awarded to us in FY2020 was mainly attributable to:

- (i) the successful registration of A-City Workshop, our principal operating subsidiary, as an Approved Specialist Contractor on probationary status under the category of “Landslip preventive/remedial works to slopes/retaining walls” has enhanced our prospects of obtaining private sector projects. According to the Industry Report, when construction contractors, private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works because such list provides them with assurance on the track record, financial position and service quality of the registered contractors. As such, our Directors consider that our registration as an Approved Specialist Contractor has enhanced our corporate profile and recognition and enabled our Group to be considered more favourably by our customers when tendering for slope works projects;
- (ii) the listing of the Shares on GEM of the Stock Exchange since 13 December 2019 has reinforced our reputation, strengthened our market presence and increased our corporate profile in the slope works industry; and
- (iii) leveraging our registration as an Approved Specialist Contractor as well as our listing status on GEM of the Stock Exchange, our Group has greater exposure to business opportunities for private sector projects. In FY2020, our Group successfully built up business relationships with six new customers and obtained a total of seven private sector projects from them, which contributed a total of approximately HK\$4.0 million and HK\$7.9 million to our revenue in FY2020 and the six months ended 30 June 2021, respectively.

Note: The number of awarded projects for a financial year/period represents the number of projects awarded in respect of the tenders submitted during that financial year/period, irrespective of being awarded in the same financial year/period or subsequently.

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Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021	From 1 July 2021 to the Latest Practicable Date
Opening number of projects <i>(Note 1)</i>	6	12	18	24	25
Number of new projects awarded to us <i>(Note 2)</i>	12	9	15	12	8
Less: Number of projects completed <i>(Note 3)</i>	(6)	(3)	(9)	(11)	(13)
Ending number of projects <i>(Note 4)</i>	12	18	24	25	20

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.
4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

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The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021	From 1 July 2021 to the Latest Practicable Date
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening value of backlog	168,681	155,501	159,320	190,572	408,907
Total value of new projects and variation orders awarded <i>(Note 1)</i>	98,065	187,722	307,258	373,126	177,128
Less: Revenue recognised	<u>(111,245)</u>	<u>(183,903)</u>	<u>(276,006)</u>	<u>(154,791)</u>	<u>(131,327)</u>
Ending value of backlog <i>(Note 2)</i>	<u>155,501</u>	<u>159,320</u>	<u>190,572</u>	<u>408,907</u>	<u>454,708</u>

Notes:

- Total value of new projects and variation orders awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the actual amount of orders under the contracts; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

Our customers

During the Track Record Period, our customers mainly included main contractors in Hong Kong who engaged us in the role of subcontractor. To a lesser extent, we were on occasions engaged directly by private property owners in the role of main contractor. The number of customers with revenue contribution to our Group was seven, seven, ten and 12 for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively. During the Track Record Period, a significant portion of our revenue was derived from our top five customers. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total revenue attributable to our top customer amounted to approximately HK\$34.6 million, HK\$63.8 million, HK\$95.7 million and HK\$58.0 million, representing approximately 31.1%, 34.7%, 34.7% and 37.5% of our total revenue in the relevant year/period, respectively. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total revenue attributable to our top five customers amounted to approximately HK\$109.5 million, HK\$180.0 million, HK\$270.2 million and HK\$148.0 million, representing approximately

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98.5%, 97.9%, 98.0% and 95.6% of our total revenue in the relevant year/period, respectively. For further information, please refer to the paragraph headed “Business – Our customers – Customer concentration” in this listing document.

During the course of our business, there may be occasions where our customers pay on our behalf for materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicle expenses required in our projects and subsequently deduct such payments when settling our service fees for the project. For further details, please refer to the paragraph headed “Business – Our customers – Top customers who were also our suppliers” in this listing document.

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) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total purchases from our top supplier amounted to approximately HK\$4.9 million, HK\$22.0 million, HK\$39.0 million and HK\$28.1 million, representing approximately 8.7%, 21.5%, 26.0% and 31.6% of our total purchases in the relevant year/period, respectively. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total purchases from our top five suppliers amounted to approximately HK\$18.5 million, HK\$57.6 million, HK\$91.7 million and HK\$52.9 million, representing approximately 32.8%, 56.3%, 61.2% and 59.4% of our total purchases in the relevant year/period, respectively. The following table sets forth a breakdown of our total purchase during the Track Record Period by type of suppliers:

	FY2018		FY2019		FY2020		For the six months ended 30 June			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	2020 HK\$'000	%	2021 HK\$'000	%
Subcontracting services	24,820	44.0	43,248	42.3	61,163	40.8	28,887	42.2	36,546	41.0
Materials	15,781	27.9	24,158	23.6	46,165	30.8	21,946	32.0	32,844	36.9
Other services ^(Note)	15,862	28.1	34,742	34.1	42,566	28.4	17,658	25.8	19,646	22.1
Total	56,463	100.0	102,148	100.0	149,894	100.0	68,491	100.0	89,036	100.0

Note: These miscellaneous services mainly included site planning and surveying services, motor vehicle expenses and machinery rental services.

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

According to the Industry Report, the revenue of slope works in Hong Kong (public and private sector in aggregate) increased from approximately HK\$2,267.3 million in 2015 to approximately HK\$2,711.5 million in 2018, while slope works in public sector has been

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the main source of revenue. Imputed to social unrest and the outbreak of the COVID-19 in 2019 and 2020 respectively, the project quantity and project value of LPMitP initiated by the Government has been sharply contracted. Since early 2021, the number of cases of COVID-19 in Hong Kong has remained relatively stable and the efforts from the Government have contributed towards an effective control of the epidemic. Coupled with the rising safety standard for man-made slope and natural hillsides, the demand for slope works is expected to recover gradually in the future.

The launching of LPMitP by the Geotechnical Engineering Office (“GEO”) in 2010 is considered one of the key drivers for the Hong Kong slope works market. LPMitP regularly monitors the situation of all slopes in Hong Kong to mitigate the risks associated with both man-made slopes and natural hillside. Since the launching of LPMitP, GEO has spent about HK\$25.2 billion on landslide prevention and mitigation studies and works; more than 6,140 Government man-made slopes were upgraded, more than 330 mitigation works for natural hillside had been implemented and more than 6,100 private man-made slopes were studied and evaluated for safety screening. Coupled with the increasing population and more buildings sit next to steep slopes, it is expected that the Government will put more effort on the promotion of LPMitP to ensure the safety of all man-made slope and natural hillside. With the continuous efforts by the Government in this regard to slope safety, the estimated revenue of slope works in Hong Kong is forecasted to experience a growth from approximately HK\$2,306.8 million in 2020 to approximately HK\$2,839.5 million in 2025, at a CAGR of 4.2%.

We believe that our competitive strengths include: (i) we offer a comprehensive range of quality slope works; (ii) ability to undertake slope works projects in different roles; (iii) possession of a pool of skilled workers; (iv) experienced and dedicated management team; and (v) stringent quality control and high safety standard and environmental impact control.

BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) leveraging our registration as Approved Specialist Contractor to tender for public sector projects directly from the Government; (ii) enhancing our prospects of obtaining new projects from construction contractors, private property owners and developers; and (iii) diversifying our customer base and expanding our market share. For further information, please refer to the paragraph headed “Business – Business strategies” in this listing document.

IMPLEMENTATION OF BUSINESS STRATEGIES AND USE OF PROCEEDS

Our Group has taken active steps to strengthen our market position in the industry and expand our market share in Hong Kong since the GEM Listing. Since the GEM Listing, we have continued to strengthen our market position. For example, A-City Workshop has been registered as a Probationary Contractor in June 2020. Our Group has achieved business growth with increasing revenue and profit after the GEM Listing. Our revenue increased to approximately HK\$183.9 million for FY2019 and further increased to approximately HK\$276.0 million for FY2020; whereas our gross profit increased to approximately HK\$33.4 million for FY2019 and further increased to approximately HK\$51.6 million for FY2020.

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The table below sets forth the details of our use of our actual net proceeds from the GEM Listing and the actual amount utilised up to 30 June 2021 (being the latest practicable date to determine our Group’s actual use of net proceeds):

	Planned use of actual net proceeds		Actual use of net proceeds up to 30 June 2021	
	<i>HK\$ million</i>	%	<i>HK\$ million</i>	%
Strengthening our manpower by recruiting additional staff	10.5	28.3	10.5	28.3
Acquisition of additional machinery	4.4	11.9	4.4	11.9
Increasing our reserve for financing the issue of performance bonds in favour of our customers	1.8	4.9	1.8	4.9
Maintaining the specific working capital required for being an Approved Specialist Contractor	<u>20.4</u>	<u>54.9</u>	<u>20.4</u>	<u>54.9</u>
Total	<u><u>37.1</u></u>	<u><u>100.0</u></u>	<u><u>37.1</u></u>	<u><u>100.0</u></u>

Our Directors are of the view that the existing implementation plans have successfully helped our Group to achieve our business strategies. Our Group will continue to apply such implementation plan in pursuit of our business strategies.

SALES AND MARKETING AND PRICING STRATEGY

During the Track Record Period, we secured new business mainly through direct invitations for tender by customers. On some occasions, we have approached the construction contractors which might have tendered for certain public sector projects we identified on gazettes or Government websites and discussed with them on the prospects of subcontracting the relevant works to us. In June 2020, A-City Workshop has successfully applied for registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Since then, we are eligible to tender for those Government contracts which impose specific requirements for the main contractor and/or subcontractor to be registered on the List of Approved Specialist Contractors.

We normally charge our customers based on actual work done according to the bill of quantities set out in the contract. Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions. For further information, please refer to the paragraph headed “Business – Pricing strategy” in this listing document.

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RISK FACTORS

Potential investors are advised to carefully read the section headed “Risk factors” in this listing document before making any investment decision. 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; (ii) a significant portion of our revenue during the Track Record Period was generated from public sector slope works projects and any significant reduction in the level of Government’s spending on slope works may materially and adversely affect us; (iii) our revenue is mainly derived from our slope works on a project-by-project basis and our business depends on our success rate on project tendering; and (iv) any significant cost overruns may materially and adversely affect our business operation and financial performance.

KEY OPERATIONAL AND FINANCIAL DATA

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

Highlights of consolidated statements of profit or loss and other comprehensive income

				Six months ended 30 June	
	FY2018	FY2019	FY2020	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue	111,245	183,903	276,006	120,844	154,791
Cost of services	<u>(89,660)</u>	<u>(150,546)</u>	<u>(224,410)</u>	<u>(98,228)</u>	<u>(125,996)</u>
Gross profit	21,585	33,357	51,596	22,616	28,795
Other income, gains and losses, net	(3)	224	4,784	340	1,493
Administrative expenses	(2,374)	(5,302)	(8,672)	(5,174)	(4,928)
Listing expenses	(139)	(16,769)	-	-	-
Transfer of Listing and related expenses	-	-	(1,449)	-	(5,657)
Finance costs	<u>-</u>	<u>(34)</u>	<u>(15)</u>	<u>(6)</u>	<u>(10)</u>
Profit before income tax	19,069	11,476	46,244	17,776	19,693
Income tax expense	<u>(2,975)</u>	<u>(4,610)</u>	<u>(6,894)</u>	<u>(3,070)</u>	<u>(3,908)</u>
Profit and total comprehensive income for the year/period	<u>16,094</u>	<u>6,866</u>	<u>39,350</u>	<u>14,706</u>	<u>15,785</u>

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Our revenue increased significantly from approximately HK\$111.2 million during FY2018 to approximately HK\$183.9 million during FY2019, and further increased to approximately HK\$276.0 million during FY2020. Such increase in our revenue was primarily attributable to (i) the increase in the number of projects undertaken by us during FY2019 and FY2020; and (ii) an increase in our revenue derived from projects of relatively larger scale.

Our profit and total comprehensive income for the year decreased from approximately HK\$16.1 million for FY2018 to approximately HK\$6.9 million for FY2019 which was mainly attributable to the increase in our non-recurring listing expenses in relation to the GEM Listing from approximately HK\$0.1 million for FY2018 to approximately HK\$16.8 million for FY2019. Our profit and total comprehensive income for the year increased from approximately HK\$6.9 million for FY2019 to approximately HK\$39.4 million for FY2020 which was mainly attributable to the decrease in the listing expenses in relation to the GEM Listing incurred by our Group from approximately HK\$16.8 million for FY2019 to nil for FY2020.

Please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations” in this listing document for a detailed analysis on our results of operations.

	As at 31 December			As at 30 June	As at 31 October
	2018	2019	2020	2021	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)

**Highlights of consolidated
statements of financial
position**

Non-current assets	1,641	3,415	4,948	4,262	4,171
Current assets	38,499	104,643	156,336	159,332	174,419
Current liabilities	13,390	20,289	33,782	20,509	24,098
Non-current liabilities	188	257	640	438	426
Net current assets	25,109	84,354	122,554	138,823	150,321
Net assets	26,562	87,512	126,862	142,647	154,066

Our net current assets increased from approximately HK\$25.1 million as at 31 December 2018 to approximately HK\$84.4 million as at 31 December 2019, which was mainly attributable to the net proceeds from the GEM Listing. Our net current assets further increased to approximately HK\$122.6 million as at 31 December 2020, which was mainly attributable to the increase in (i) our contract assets of approximately HK\$29.3 million; (ii) our trade and other receivables of approximately HK\$5.6 million; (iii) our cash and bank balances of approximately HK\$16.8 million; and (iv) partially offset by the increase in our trade and other payables of approximately HK\$16.8 million.

SUMMARY

Our net assets increased from approximately HK\$26.6 million as at 31 December 2018 to approximately HK\$87.5 million as at 31 December 2019, which was mainly attributable to (i) the increase of the share capital and the share premium of approximately HK\$54.1 million in aggregate from the GEM Share Offer; and (ii) the portion of profit and total comprehensive income for FY2019 of approximately HK\$6.9 million which was kept as our retained earnings. Our net assets further increased to approximately HK\$126.9 million as at 31 December 2020, which was mainly attributable to the portion of profit and total comprehensive income for FY2020 of approximately HK\$39.4 million which was kept as our retained earnings.

Highlights of consolidated statements of cash flows

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
Operating profit before working capital changes	19,687	12,424	47,529	18,300	20,460
Change in working capital	(6,307)	(6,959)	(18,224)	(19,799)	(7,684)
Income tax paid	(6,164)	–	(9,956)	(4,621)	–
Net cash generated from/(used in) operating activities	7,216	5,465	19,349	(6,120)	12,776
Net cash used in investing activities	(3,962)	(1,843)	(2,115)	(2,223)	(71)
Net cash (used in)/generated from financing activities	(2,000)	50,645	(404)	(252)	(139)
Net increase/(decrease) in cash and cash equivalents	1,254	54,267	16,830	(8,595)	12,566
Cash and cash equivalents at the beginning of year/period	11,180	12,434	66,701	66,701	83,531
Cash and cash equivalents at the end of year/period	<u>12,434</u>	<u>66,701</u>	<u>83,531</u>	<u>58,106</u>	<u>96,097</u>

We recorded net cash used in operating activities of approximately HK\$6.1 million for the six months ended 30 June 2020, which were mainly due to the increase in contract assets for the six months ended 30 June 2020 and the decrease in trade and other payables while we recorded net cash generated from operating activities of approximately HK\$12.8 million for the six months ended 30 June 2021 which were mainly due to the decrease in contract assets and trade and other receivables.

SUMMARY

Our Directors considered that our net cash used in operating activities for the six months ended 30 June 2020 was primarily due to the temporary effect owing to the timing of certification from our customers as well as the timing of payments to our suppliers and would likely turn to cash inflows upon the certification from and billing to our customers of our works as well as our continuous profitable operation, which was evidenced by our cash flows from operating activities turned from net cash used in operating activities for six months ended 30 June 2020 to net cash generated from operating activities for FY2020 and the six months ended 30 June 2021.

Our Group improves our net operating cash outflow position by putting more efforts for the certification from and billing to our customers of our works, we will follow up with our customers on the certification process of our work performed on a weekly basis. We will also perform monthly review on our trade receivables and contract assets and aging analysis. In addition, our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements.

For FY2019, we recorded net cash generated from financing activities of approximately HK\$50.6 million, which was mainly due to the proceeds of HK\$60.0 million from issuance of share capital in the GEM Listing, while such net cash inflow was partially offset by the repayments to our Directors of approximately HK\$4.9 million and the payment of share issuance expenses of approximately HK\$3.9 million in relation to the GEM Listing in FY2019. For further details, please refer to the paragraph headed “Financial information – Liquidity and capital resources” in this listing document.

Summary of financial ratio

	FY2018 or as at 31 December 2018	FY2019 or as at 31 December 2019	FY2020 or as at 31 December 2020	Six months ended 30 June 2021 or as at 30 June 2021
Gross profit margin	19.4%	18.1%	18.7%	18.6%
Net profit margin	14.5%	3.7%	14.3%	10.2%
Return on equity	60.6%	7.8%	31.0%	11.1%
Return on total assets	40.1%	6.4%	24.4%	9.6%
Current ratio	2.9	5.2	4.6	7.8
Quick ratio	2.9	5.2	4.6	7.8
Trade receivables turnover				
days	11.0 days	14.4 days	19.4 days	18.4 days
Gearing ratio	18.6%	0.4%	0.3%	0.2%

Our net profit margin decreased from approximately 14.5% for FY2018 to approximately 3.7% for FY2019 which was mainly attributable to the increase in our non-recurring listing expenses in relation to the GEM Listing from approximately HK\$0.1 million for FY2018 to approximately HK\$16.8 million for FY2019. Our net profit margin increased to approximately 14.3% for FY2020, which was driven by the decrease in our non-recurring listing expenses in relation to the GEM Listing from approximately HK\$16.8

SUMMARY

million for FY2019 to nil for FY2020. Our net profit margin decreased from approximately 12.2% for the six months ended 30 June 2020 to approximately 10.2% for the six months ended 30 June 2021, which was driven by the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million for the six months ended 30 June 2021.

Our return on equity decreased from approximately 60.6% during FY2018 to approximately 7.8% for FY2019. Such decrease was mainly due to (i) the decrease in our profit and total comprehensive income of approximately HK\$9.2 million for FY2019. Such decrease was primarily attributable to the increase in our non-recurring listing expenses of approximately HK\$16.6 million in relation to the GEM Listing and the increase in administrative expenses of approximately HK\$2.9 million as a result of increase of our finance and administrative staff and increase of bank charges, while such decrease was partially offset by the increase in our gross profit of approximately HK\$11.8 million as a result of our increase in revenue. Please refer to the paragraph headed "Financial information - Period-to-period comparison of results of operations" in this listing document for the reasons for the decrease in our profit and total comprehensive income for FY2019; and (ii) the increase in our total equity, which was mainly due to the increase of the share capital and share premium of approximately HK\$54.1 million in aggregate as a result of our GEM Listing in December 2019. Our return on equity increased to approximately 31.0% during FY2020. Such increase was mainly due to the increase in our profit and total comprehensive income for the year of approximately 473.1%, which outweighed the increase in our equity of approximately 45.0% during FY2020. Our return on equity decreased from approximately 14.4% for the six months ended 30 June 2020 to approximately 11.1% for the six months ended 30 June 2021, which was primarily attributable to (i) the decrease in our profit and total comprehensive income for the period as a result of the recognition of transfer of listing and related expenses of approximately HK\$5.7 million; and (ii) the increase in our total equity of approximately HK\$40.4 million, which was due to the increase in our retained earnings as a result of our profitable operation.

Our return on total assets decreased from approximately 40.1% for FY2018 to approximately 6.4% for FY2019. Similar to the reason for the decrease in our return on equity, the decrease in our return on assets was mainly due to (i) the decrease in our profit and total comprehensive income of approximately HK\$9.2 million for FY2019. Such decrease was primarily attributable to the increase in our non-recurring listing expenses of approximately HK\$16.6 million in relation to the GEM Listing and the increase in administrative expenses of approximately HK\$2.9 million as a result of increase of our finance and administrative staff and increase of bank charges, while such decrease was partially offset by the increase in our gross profit of approximately HK\$11.8 million as a result of our increase in revenue. Please refer to the paragraph headed "Financial information - Period-to-period comparison of results of operations" in this listing document for the reasons for the decrease in our profit and total comprehensive income for FY2019; and (ii) the increase in our total assets of approximately HK\$67.9 million, which was primarily attributable to the increase in our cash and bank balances of approximately HK\$54.3 million as a result of the net proceeds received from our GEM Listing in December 2019. Our return on assets increased to approximately 24.4% during FY2020. Such increase was mainly due to the increase in our profit and total comprehensive income for the year of approximately 473.1%, which outweighed the increase in our total assets of approximately 49.3% during FY2020. Our return on total assets decreased from approximately 12.7% for

SUMMARY

the six months ended 30 June 2020 to approximately 9.6% for the six months ended 30 June 2021, which was primarily attributable to (i) the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million; and (ii) the increase in our total assets.

Our trade receivables turnover days were approximately 11.0 days, 14.4 days, 19.4 days and 18.4 days for FY2018, FY2019, FY2020 and six months ended 30 June 2021, respectively. The general increase was mainly attributable to the increase in our trade receivables as at respective year ended date due to our business growth and the work done certified by customers close to year ended date according to our work progress.

Please refer to the paragraph headed “Financial information – Key financial ratios” in this listing document for a detailed analysis on our financial ratios.

CONTROLLING SHAREHOLDERS

Immediately following completion of the Transfer of Listing, Good Hill (which is wholly-owned by Mr. Ho and Mr. Sieh in equal share) will continue to be entitled to exercise or control the exercise of 75% of the voting power at general meetings of our Company, therefore, Good Hill is our Controlling Shareholder. On the basis that Mr. Ho and Mr. Sieh have decided to restrict their ability to exercise direct control over our Company by holding their interests through Good Hill, Mr. Ho and Mr. Sieh are a group of our Controlling Shareholders. There has been no material change in our Controlling Shareholders' shareholdings in our Company since the GEM Listing Date and up to the Latest Practicable Date.

Each of our Controlling Shareholders has undertaken to our Company that (a) it/he will not and will procure that the relevant registered holder(s) will not in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in the GEM Prospectus and ending on the date which is 30 months from the GEM Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by the GEM Prospectus to be the beneficial owner; and (b) it/he will not and will procure the Board of Directors not to, in the period during which our Controlling Shareholders remain as Controlling Shareholders, cause any fundamental change in the principal business of our Company and that the revenue attributable to the undertaking of construction and related works shall represent 75% or above of our total revenue of the respective year/period.

For details of our relationship with our Controlling Shareholders, please refer to the section headed “Relationship with Controlling Shareholders” in this listing document.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, we were involved in certain claims and potential claims that were arisen during our usual and ordinary course of business, which include (i) two ongoing employees' compensation claims; (ii) two settled employee's compensation claims and one settled common law personal injury

SUMMARY

claim; (iii) two potential employees' compensation claims; and (iv) five potential common law personal injury claims, in relation to workplace injuries. For further details, please refer to the paragraph headed "Business – Litigations and claims" in this listing document.

LISTING EXPENSES/TRANSFER OF LISTING AND RELATED EXPENSES

Our Group was listed on GEM of the Stock Exchange on 13 December 2019. We incurred listing expenses of approximately HK\$0.1 million, HK\$16.8 million, nil and nil for the GEM Listing during FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively.

Our Directors estimate that the total amount of expenses in relation to the Transfer of Listing is approximately HK\$13.3 million, which is expected to be charged to the profit or loss and comprising (i) professional parties expenses of approximately HK\$10.0 million paid and payable to the Sponsor, the financial adviser to our Company, the reporting accountants and auditors, the legal advisers, the industry consultant and the internal control adviser; and (ii) non-professional parties expenses of approximately HK\$3.3 million. Out of the amount of approximately HK\$13.3 million, approximately HK\$1.4 million and HK\$5.7 million were incurred during FY2020 and the six months ended 30 June 2021, while approximately HK\$6.2 million is expected to be incurred for the six months ended 31 December 2021. Expenses in relation to the Transfer of Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2021 will be affected by the expenses in relation to the Transfer of Listing.

DIVIDEND

For each of FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we declared dividends payables of approximately HK\$10.0 million, nil, nil and nil, respectively to our then shareholders. The dividend was paid by setting off against the amounts due from Mr. Sieh and Mr. Ho during FY2018. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors including our operation and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payment ratio.

REASONS FOR THE TRANSFER OF LISTING

Our Directors are of the view that the GEM Listing is of assistance to our Group to gain public recognition and profile. After the GEM Listing, our Group has achieved business growth in our revenue and profit. Our Directors consider that since the Main Board is perceived to enjoy more premium status by investors, the Transfer of Listing, if approved and proceeded, will further promote our Group's corporate profile and recognition among public investors and increase attractiveness of the Shares to the public investors and thus broaden our Group's investor base and enhance the trading liquidity of the Shares. Furthermore, obtaining a listing status on the Main Board will strengthen our Group's position in the industry and enhance our Group's competitive strengths in retaining staff and

SUMMARY

attracting customers. Therefore, our Directors are of the view that the Transfer of Listing will be beneficial to the future growth, financing flexibility and business development of our Group which will create a long-term value to our Shareholders.

As at the date of this listing document, the Board has no plans to change the nature of the business of our Group following the Transfer of Listing. The Transfer of Listing will not involve any issue of new Shares by our Company.

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 20 projects on hand with an aggregate of approximately HK\$454.7 million yet to be recognised as revenue, among which, approximately HK\$10.8 million and HK\$443.9 million are expected to be recognised as revenue from the Latest Practicable Date to 31 December 2021 and FY2022 onwards. In October 2021, we were awarded with a public sector project with estimated contract sum of HK\$160.0 million (i.e. Project O01) by Customer F (a subsidiary of a company listed on the GEM which the principal business activities include undertaking slope works, foundation works and other general building works in Hong Kong). For further details, please refer to the paragraph headed “Business – Projects on hand” in this listing document.

Based on our third quarterly report dated 10 November 2021, our revenue and gross profit for the nine months ended 30 September 2021 amounted to approximately HK\$222.0 million and HK\$41.0 million, representing an increase of 17.0% and 8.9%, respectively, as compared to the nine months ended 30 September 2020. Our financial information for the nine months ended 30 September 2021 has been reviewed by our reporting accountants in accordance with *Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. For further details, please refer to the section headed “Financial Information of our Group for the nine months ended 30 September 2021” in Appendix IA to this listing document.

Based on the best estimation of our Directors, it is expected that our net profit will decrease in FY2021 when compared to FY2020, which is mainly attributable to (i) the estimated significant increase in amount of listing expenses in relation to the Transfer of Listing and related expenses to be incurred by us; and (ii) the estimated significant decrease in amount of Government grant from Anti-epidemic Fund to be received by us.

Our Directors confirm that, save for the expenses in connection with the Transfer of Listing, up to the date of this listing document, there has been no material adverse change in our financial or trading position or prospects since 30 June 2021, and there have been no events since 30 June 2021 which would materially affect the information shown in our consolidated financial information included in the Accountants’ Report set forth in Appendix I to this listing document.

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Impact of the outbreak of COVID-19 on our operations

Based on information available as at the date of this listing document, our executive Directors consider that the outbreak of COVID-19 did not result in any material impact on our Group's operation and financial performance or material adverse change to our expansion plan based on the following factors:

- we had not experienced any significant project delay and/or cancellation of work orders from our customers;
- we had not experienced any material delay in the settlement of payment to us by our customers as a result of the outbreak of COVID-19;
- we had not experienced any material decline in the number of tender invitations received by us following the outbreak of COVID-19;
- as at the Latest Practicable Date, our Group had a total of 17 tenders which were still undergoing tender selection process and pending tender result. In respect of these 17 tenders, none of the customers have notified us that such projects had been cancelled or revoked;
- based on information publicly available and reasonable enquiries by our executive Directors, we are not aware of any suggestion or indication that our major customers suffered from material financial difficulties as a result of the outbreak of COVID-19;
- we had not experienced any material difficulties in making procurement of materials and/or subcontracting services;
- we had not experienced any material delay in delivery of materials and/or subcontracting services by our material suppliers and subcontractors;
- based on information publicly available and regular updates from our employees and subcontractors, none of our employees or our subcontractors' employees involved in our projects had been tested positive for COVID-19;
- there had not been any significant changes in the profit margin of our projects on hand or estimated profit margin of our potential projects following the outbreak of COVID-19;
- according to the Industry Report, the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong's slope works industry in the long run due to the fact that (i) as put forward in the Hong Kong 2021-2022 Budget by the Government, the financial provision on slope safety and geotechnical standards has increased from HK\$416.9 million to HK\$441.7 million during 2019 to 2021, representing a CAGR of approximately 2.9%. The programme is deployed with a view to exercising geotechnical control on private and public developments, register slopes, implement the LPMitP programme, provide

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landslide emergency service, investigate serious landslides, set geotechnical standards, undertake public education and advise private slope owners on slope safety. As such, the increasing financial and strategic effort dedicated by the Government is expected to propel the slope works industry; (ii) the Government has estimated the number of new slope features registered to reach 450 units in 2021, as compared to 440 units and 429 units for 2019 and 2020, respectively. The continuous registration of new slope is expected to underpin the growth of slope works industry; and (iii) the major construction projects in Hong Kong ranging from roads, housing shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected. For further details, please refer to the paragraph headed “Industry overview – Overview of Hong Kong slope works industry” in this listing document;

- the first confirmed case of COVID-19 in Hong Kong was reported in January 2020. There were rounds of outbreaks in Hong Kong during the periods of January, March, July to August and November to December in 2020. The number of confirmed cases has gradually decreased since January 2021. Taking into consideration (i) the gradual decrease in number of confirmed cases since 2021; and (ii) the implementation of the COVID-19 vaccination programme since February 2021, our executive Directors consider that most of the adverse impact brought by the outbreak of COVID-19 should have been reflected in our business and financial performance for FY2020, if any. Notwithstanding the outbreak of COVID-19 in 2020, our Group was able to achieve business growth in FY2020 as evidenced by the significant increase in revenue from approximately HK\$183.9 million for FY2019 to approximately HK\$276.0 million for FY2020. Further, the value of our projects backlog as at the Latest Practicable Date of approximately HK\$454.7 million was significantly higher than our projects backlog as at each of 31 December 2018 (i.e. approximately HK\$155.5 million), 31 December 2019 (i.e. approximately HK\$159.3 million) and 31 December 2020 (i.e. approximately HK\$190.6 million), respectively; and
- notwithstanding the outbreak of COVID-19 in 2020, our Group was able to implement our business expansion plans and utilise the net proceeds from the GEM Listing according to the timeline as set forth in the GEM Prospectus. Further, our Group was able to achieve our business strategies in (i) tendering for projects directly from the Government as we had leveraged our registration as an Approved Specialist Contractor and tendered for three public sector projects as main contractor with the Lands Department, the CEDD and the Highways Department in 2020; and (ii) diversifying our customer base and expanding our market share which can be demonstrated by the increase in number of customers with revenue contribution to our Group from seven for FY2019 to ten for FY2020 and the increase in number of projects for which we submitted tenders from 21 for FY2019 to 27 for FY2020 as well as the increase in number of projects awarded to our Group from 11 for FY2019 to 16 for FY2020^(Note).

Note: The number of awarded projects for a financial year/period represents the number of projects awarded in respect of the tenders submitted during that financial year/period, irrespective of being awarded in the same financial year/period or subsequently.

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SHARE PRICE

The chart below shows the daily closing price of the Shares since the GEM Listing Date and up to the Latest Practicable Date:



Since the GEM Listing Date and up to the Latest Practicable Date, the highest closing price of the Shares was HK\$1.600 recorded on 27 May 2021 and the lowest closing price of the Shares was HK\$0.239 recorded on 19 March 2020. Set out below are the quantitative information and explanations on material fluctuations in our Company's share price during this period:

- The closing price of the Shares decreased from the offer price of HK\$0.60 per Share on the GEM Listing Date to HK\$0.239 per Share on 19 March 2020, representing a decrease of approximately 60.2%. Our Directors considered that such decrease might be partly attributable to the deterioration of the investors' sentiment due to the outbreak of COVID-19 worldwide. In particular, our Directors observed that (i) approximately 71.5% of the GEM listed companies has experienced a decrease in their share price, ranging from 1.0% to 85.1%, during the period; (ii) approximately 82.2% of the listed companies on the Stock Exchange which are principally engaged in the construction industry experienced significant downfall, ranging from 0.4% to 95.6%, in their share price during the period; and (iii) in December 2019, other than our Company, five small and mid-sized companies (with market capitalisation under HK\$1.0 billion) were listed on the Stock Exchange, among these five companies four of them had experienced a significant decrease in share price, ranging from 12.3% to 80.8% with an average decrease of 44.2%.

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- During the period from 20 March 2020 to 30 October 2020, the closing price of the Shares moved within the range of HK\$0.245 per Share and HK\$0.345 per Share. Our Directors confirmed that they are not aware of any changes in our Company's circumstances or particular macro-economic events leading to such movement in the share price over this period.
- The closing price of the Shares increased from HK\$0.245 per Share on 30 October 2020 to HK\$0.90 per Share on 20 November 2020, representing an increase of approximately 267.3%. Our Directors believed that such increase might be caused by public investors' perception of the improvement in our Group's operating performance as reflected in (i) the positive profit alert announcement for the third quarterly results for the nine months ended 30 September 2020 published on 30 October 2020; and (ii) the third quarterly results announcement for the nine months ended 30 September 2020 published on 4 November 2020 (the "**Third Quarterly Results Announcement**"). Our revenue increased from approximately HK\$137.8 million for the nine months ended 30 September 2019 to approximately HK\$189.7 million for the nine months ended 30 September 2020, representing an increase of approximately HK\$51.9 million or 37.6%.

In particular, our Directors believed that the public investors might have perceived from the Third Quarterly Results Announcement that, barring any unforeseen adverse changes or material deterioration in the operating performance of our Group subsequent to 30 September 2020, our Group would be eligible to fulfil the profit requirement under Rule 8.05 of the Main Board Listing Rules with reference to its net profits for the two years ended 31 December 2019 and the nine months ended 30 September 2020. Investors generally perceived that shares listed on the Main Board would enjoy more premium price and status which may attract more public interests. Therefore, the publication of the Third Quarterly Results Announcement may have encouraged expectations among public investors about the prospects of our Group's application for the Transfer of Listing.

- The closing price of the Shares decreased from HK\$0.90 per Share on 20 November 2020 to HK\$0.455 per Share on 11 January 2021, representing a decrease of approximately 49.4%. Our Directors believed that such decrease might be triggered by the publication of the consultation paper (the "**Consultation Paper**") on Main Board profit requirement by the Stock Exchange on 27 November 2020. The proposed increase in the minimum profit requirement under the Consultation Paper has created uncertainty on our Group's ability to fulfil the new Main Board profit requirement (the "**Profit Requirement**") and hence its prospect in transferring its listing from GEM to the Main Board in the foreseeable future. In particular, under the Consultation Paper, it was proposed that the Profit Requirement would be increased by either 150% or 200%. Such increase in the Profit Requirement, if effective, would have rendered our Company ineligible to fulfil the new Profit Requirement based on its financial performance during the two years ended 31 December 2019 and the nine months ended 30 September

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2020. This may have dampened the public investors' interest in the Shares during such period, despite the strong financial performance of our Group over the first three quarters of FY2020.

- The closing price of the Shares increased from HK\$0.455 per Share on 11 January 2021 to HK\$1.320 per Share on 26 February 2021, representing an increase of approximately 190.1%. Our Directors believed that such increase might be caused by public investors' perception of our Group's strong operating and financial performance as reflected in (i) the positive profit alert announcement for the annual results for the year ended 31 December 2020 published on 18 February 2021; and (ii) the annual results announcement for the year ended 31 December 2020 published on 26 February 2021. Our revenue increased from approximately HK\$183.9 million for FY2019 to approximately HK\$276.0 million for FY2020, representing an increase of approximately HK\$92.1 million or 50.1%. Our Directors believed that public investors may have anticipated that our Group would be eligible to fulfil the profit requirement under Rule 8.05 of the Main Board Listing Rules with reference to its net profits for the three years ended 31 December 2020.

Our Directors also believed that the increase in the share price of our Company in the period could be partly attributable to macro-economic factors such as (i) in early January 2021, the Secretary for Food & Health announced that the Government estimated that members of the public can get vaccinated through the vaccination programmes from February and the Government targeted to provide vaccines for the majority of the population within 2021. Our Directors believed that the public investors might have perceived that the outbreak of COVID-19 in Hong Kong can be contained in the foreseeable future when a substantial population of Hong Kong has been vaccinated and achieved herd immunity. The expectation that daily life and business activity can be returned to normal might have boosted investor's interest to invest in listed issuers; and (ii) the market sentiment of the Hong Kong stock market was fairly optimistic since the end of 2020 up to mid-February 2021. The closing price of the Hang Seng Index increased from 27,231 on 31 December 2020 to 30,595 on 18 February 2021, representing an increase of approximately 12.4%. It is generally understood that the share price of small-cap listed issuers, such as our Company, are more volatile and have larger movement than the share price of large-cap listed issuers. The closing price of the S&P/ HKEX GEM Index, which consists of major GEM listed issuers as its constituents, increased sharply from 133.8 on 31 December 2020 to 206.8 on 18 February 2021, representing an increase of approximately 54.6% in less than 32 trading days. Our Directors believed that the share price of the Company may have benefited from the general improvement in market sentiment of the Hong Kong stock market, particularly for small-cap listed issuers, in early 2021.

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- The closing price of the Shares increased to HK\$1.600 per Share on 27 May 2021. Our Directors believed that such fluctuation might be caused by (i) the positive profit alert announcement of the first quarterly results for the three months ended 31 March 2021 published on 11 May 2021; and (ii) the first quarterly results announcement for the three months ended 31 March 2021 published on 12 May 2021. Our revenue increased from HK\$61.1 million for the three months ended 31 March 2020 to HK\$73.3 million for the three months ended 31 March 2021, representing an increase of approximately HK\$12.2 million or 20.0%.
- The closing price of the Shares remained relatively stable since June 2021 and up to the Latest Practicable Date.

In view of the aforesaid and having made reasonable enquiries, our Directors confirm, and the Sponsor concurs, that it was not aware of any reasons for the price movements of the Shares or of any information that had to be disclosed under Part XIVA of the SFO.

SHAREHOLDING DISTRIBUTION

Our Company has engaged a professional firm, which is an independent third party, to make enquiries into our Company's shareholding distribution pursuant to section 329 of the SFO. Based on the report of the aforesaid professional firm made up to 20 December 2021 and to the best knowledge of our Directors upon due enquiry, as at 2 December 2021 (being the latest practicable date for our Company to ascertain the following information prior to the Transfer of Listing), excluding Good Hill (which held 300,000,000 Shares, representing 75.00% of the issued Shares), the remaining top 25 Shareholders held an aggregate of 42,170,000 Shares (representing 10.54% of the issued Shares). 57,830,000 Shares (representing 14.46% of the issued Shares) were in the hands of other Shareholders. For further details, please refer to the paragraph headed "Share capital – Shareholding distribution" in this listing document.

In view of the high concentration of shareholding in a small number of Shareholders, Shareholders and prospective investors of our Company should be aware that the price of the Shares could fluctuate substantially even with a small number of Shares traded, and should exercise extreme caution when dealing in the Shares.

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

In this listing document, unless the context otherwise requires, the following expressions have the following meanings.

“A-City Workshop”	A-City Workshop Limited (晉城建業有限公司), a company incorporated in Hong Kong on 31 August 2012 with limited liability and has become an indirect wholly-owned subsidiary of our Company since 15 March 2019
“Annual General Meeting”	the annual general meeting of our Company held on 6 May 2021
“Approved Specialist Contractor(s)”	a person whose name is registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”
“Architectural Services Department”	Architectural Services Department of the Government
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company adopted and took effect at the Annual General Meeting, a summary of which is set out in Appendix III to this listing document, as amended from time to time
“associate(s)”	has the meaning ascribed thereto it under the Main Board Listing Rules
“Authorised Signatory(ies)”	the appointed person(s) to act for a registered contractor for the purpose of the Buildings Ordinance
“Board” or “Board of Directors”	the board of Directors of our Company
“Building Authority”	the Building Authority of the Government
“Buildings Department”	the Buildings Department of the Government
“Buildings Ordinance”	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CEDD”	Civil Engineering and Development Department of the Government
“close associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“Companies Act” or “Cayman Companies Act”	the Companies Act Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Company” and “our Company”	Maxicity Holdings Limited (豐城控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 30 January 2019, registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 13 March 2019, the Shares of which have been listed on GEM from 13 December 2019 to 30 December 2021 and will be listed on the Main Board since 31 December 2021
“connected person(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“connected transaction”	has the meaning ascribed to it under the Main Board Listing Rules
“Construction Industry Council”	the Construction Industry Council, a body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Controlling Shareholders”	has the meaning ascribed to it under the Main Board Listing Rules and unless the context otherwise requires, means Good Hill, Mr. Ho and Mr. Sieh
“core connected person(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Main Board Listing Rules
“COVID-19”	the coronavirus pandemic, an ongoing global pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
“Dangerous Hillside Order”	an order issued by the Buildings Department, when a private slope or retaining wall is found to be dangerous or potentially dangerous, to require the slope owner to investigate and if necessary rectify the slope
“Deed of Indemnity”	the deed of indemnity dated 25 November 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) as further detailed in the paragraph headed “E. Other Information – 1. Tax and other indemnity” in Appendix IV to this listing document
“Development Bureau”	the Development Bureau of the Government
“Director(s)”	the director(s) of our Company
“F&S” or “Frost & Sullivan”	Frost & Sullivan Limited, an independent market research agent
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ended 31 December 2019
“FY2020”	the financial year ended 31 December 2020
“FY2021”	the financial year ending 31 December 2021
“FY2022”	the financial year ending 31 December 2022
“GEM”	the GEM of the Stock Exchange
“GEM Listing”	the listing of the Shares on GEM

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“GEM Listing Date”	13 December 2019, being the date on which dealings in the Shares first commenced on GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, modified and supplemented from time to time
“GEM Prospectus”	the prospectus issued by our Company dated 30 November 2019 for the GEM Share Offer and the GEM Listing
“GEM Share Offer”	the issue and offer of the Shares for subscription by public and placing of the Shares by the placing underwriters on behalf of our Company at the offer price of HK\$0.60 per Share for the GEM Listing
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended, modified or supplemented from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Good Hill”	Good Hill Investment Limited (峻峰投資有限公司), (a) a company incorporated in BVI on 16 January 2019 with limited liability; and (b) one of our Controlling Shareholders, which is directly owned as to 50% by each of Mr. Ho and Mr. Sieh respectively
“Government”	the Government of Hong Kong
“Group”, “we”, “us” or “our Group”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period before our Company became the holding company of its present subsidiaries
“Highways Department”	Highways Department of the Government
“HKD” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Boardroom Share Registrars (HK) Limited, the Hong Kong branch share registrar of our Company
“Housing Authority”	the Hong Kong Housing Authority, a statutory body in Hong Kong established under the Housing Ordinance (Chapter 283 of the Laws of Hong Kong) which is responsible for developing and implementing Hong Kong’s public housing programme
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Main Board Listing Rules) any Directors, chief executive or Substantial Shareholders of our Company, its subsidiaries or any of their respective associates and not otherwise a connected person of our Company
“Industry Report”	a market research report commissioned by our Company and prepared by F&S on the overview of the industry in which our Group operates
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 14001:2015”	an environmental management system standard that maps out a framework that a company or organisation can follow to set up an effective environmental management system, to provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved
“ISO 9001:2015”	a quality management system standard that is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“ISO 45001:2018”	an occupational health and safety management system standard that helps businesses to manage occupational health and safety risks and improve performance through the implementation of policies and objectives
“Kanic International”	Kanic International Limited (勤達國際有限公司), a company incorporated in BVI on 5 March 2019 with limited liability, a direct wholly-owned subsidiary of our Company since incorporation
“Labour Department”	the Labour Department of the Government
“Lands Department”	the Lands Department of the Government
“Landslip Prevention and Mitigation Programme” or “LPMitP”	the rolling Landslip Prevention and Mitigation Programme launched by the Geotechnical Engineering Office of the CEDD in 2010
“Latest Practicable Date”	15 December 2021, being the latest practicable date for the purposes of ascertaining certain information in this listing document prior to its publication
“Legal Counsel”	Mr. Chan Chung, barrister-at-law of Hong Kong
“List of Approved Specialist Contractors for Public Works”	the “List of Approved Suppliers of Materials and Specialist Contractors for Public Works” maintained by the Development Bureau
“Listing Committee”	the Listing Committee of the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange, as amended, modified and supplemented from time to time
”man-made slopes”	slopes with certain man-made features, including cut-back slopes, slopes formed by filled materials, slope with the support of retaining walls, and slopes containing disturbed terrain features
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted and took effect on 25 November 2019, a summary of which is set out in Appendix III to this listing document, as amended from time to time

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Mr. Ho”	Mr. Ho Ka Ki (何家淇), our executive Director, our chief executive officer and one of our Controlling Shareholders
“Mr. Sieh”	Mr. Sieh Shing Kee (謝城基), our executive Director, chairman of our Board and one of our Controlling Shareholders
“natural hillsides”	sloping terrains that are not significantly modified by human activities
“NRMM Regulation”	The Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“OHSAS 18001:2007”	an international standard setting out requirements for an occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
“PRC” or “China”	the People’s Republic of China, which for the purpose of this listing document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Probationary Contractor”	a person whose name is registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” on a probationary status
“Project #01 – Project #29”	the top projects in terms of revenue contribution to our Group for each financial year/period during the Track Record Period, details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” in this listing document

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Project O01 – Project O08”	our projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced as at the Latest Practicable Date, details of which are set out in the paragraph headed “Business – Projects on hand” in this listing document
“Registered General Building Contractor”	a person whose name is on the register of general building contractors maintained under section 8A of the Buildings Ordinance from time to time
“Registered Specialist Contractor”	a person whose name is on the register of specialist contractors maintained under section 8A of the Buildings Ordinance from time to time
“Registered Specialist Trade Contractors Scheme”	Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council
“Regulated Machine(s)”	any mobile machine(s) or transportable industrial equipment(s) (other than a vehicle of a class specified in Schedule 1 to the Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong) that is/are powered by an internal combustion engine with a rated engine power output that is greater than 19 kW but not greater than 560 kW
“SFC” or “Securities and Futures Commission”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company, which are traded in HKD, listed on GEM from 13 December 2019 to 30 December 2021 and will be listed on the Main Board since 31 December 2021
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 25 November 2019, which shall remain valid and effective following the Transfer of Listing and will be implemented in full compliance with Chapter 17 of the Main Board Listing Rules, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this listing document
“slope works”	in respect of our business, generally refer to landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls
“Specific Working Capital Requirement”	in respect of our registration as a Probationary Contractor, refers to the requirement under the Contractor Management Handbook revised and published by the Development Bureau in January 2021 for us to maintain a minimum capital of either (a) HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021) if there are no outstanding contracts; or (b) the higher of HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021) or 10% of the combined annual value of uncompleted works on outstanding contracts both in Government and non-Government projects
“Sponsor”	Kingsway Capital Limited, the sponsor to our Company’s application for the Transfer of Listing and a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Main Board Listing Rules
“Substantial Shareholder”	has the meaning ascribed to it under the Main Board Listing Rules
“Supplemental Deed of Indemnity”	the supplemental deed of indemnity dated 20 December 2021 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) supplementing the Deed of Indemnity as further detailed in the paragraph headed “E. Other Information – 1. Tax and other indemnity” in Appendix IV to this listing document

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Technical Circular”	the technical circular issued by the work branch of the Development Bureau on 8 February 2015
“Technical Director(s)”	in respect of any registered contractor which is a corporate entity, a director authorised by the board of directors of such contractor to ensure the works are carried out in accordance with the Buildings Ordinance
“Tender Limit for Government Contracts”	refers to the limitation under the Contractor Management Handbook revised and published by the Development Bureau in January 2021 that a Probationary Contractor may take on not more than two Government contracts tendered with total outstanding value of works of not greater than HK\$184 million (HK\$114 million prior to 1 March 2021) in the role of main contractor
“Track Record Period”	FY2018, FY2019, FY2020 and the six months ended 30 June 2021
“Transfer of Listing”	the proposed transfer of listing of Shares from GEM to the Main Board pursuant to Chapter 9A of the Main Board Listing Rules
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	United States Securities Act of 1933, as amended, modified and supplemented from time to time
“US\$”	United States dollars, the lawful currency of the United States
“Water Supplies Department”	Water Supplies Department of the Government
“WBDB”	Works Branch of the Development Bureau
“%”	per cent

FORWARD-LOOKING STATEMENTS

This listing document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases the words such as “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and the negative of these words or other similar expressions or statements, as they relate to our Group, are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business and operating strategies and plans of operation;
- our Group’s capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Group’s operations and business prospects;
- our Group’s dividend distribution plans and dividend policy;
- the regulatory environment as well as the general outlook of the industry in which our Group operates;
- future developments in the industry in which our Group operates;
- the trend of the economy of Hong Kong and the world in general; and
- factors beyond our control such as catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

These statements are based on various assumptions, including those regarding our Group’s present and future business strategy and the environment in which our Group will operate in the future.

Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group’s future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk Factors” and “Financial Information” of this listing document.

Subject to the requirements of the Main Board Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this listing document, whether as a result of new information, future events or otherwise. Hence, should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this listing document are qualified by reference to the cautionary statements as set out in this section.

In this listing document, statements of, or references to, our Group’s intentions or those of any of our Directors are made as at the date of this listing document. Any such intentions may change in light of future developments.

RISK FACTORS

Potential investors should carefully consider all of the information set out in this listing document and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the Shares. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

This listing document contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this listing document. Factors that could contribute to such differences are set out below as well as in other parts in this listing document.

RISK RELATING TO OUR BUSINESS

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

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. Our top five customers for each of FY2018, FY2019, FY2020 and the six months ended 30 June 2021 accounted for approximately 98.5%, 97.9%, 98.0% and 95.6% of our revenue, respectively. During the Track Record Period, we secured new businesses mainly through direct invitation for tender by our customers, and contracts are normally awarded to us by our customers through a tendering process. There is no assurance that we will continue to obtain contracts from our major customers in the future. If there is a significant decrease in the number of projects awarded by our major customers, and we are unable to secure suitable projects of a comparable size and quantity as replacements from other customers, our financial condition and operating results would be materially and adversely affected.

A significant portion of our revenue during the Track Record Period was generated from public sector slope works projects and any significant reduction in the level of Government's spending on slope works may materially and adversely affect us

A significant portion of our revenue was derived from public sector slope works projects of which the project owners are Government departments and statutory bodies. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, revenue attributable to public sector projects amounted to approximately HK\$106.0 million, HK\$149.8 million, HK\$239.9 million and HK\$139.2 million, representing approximately 95.3%, 81.5%, 86.9% and 89.9% of our total revenue, respectively.

RISK FACTORS

The Government's spending budget on civil engineering projects (especially those involving slope works, being the principal types of works we undertook during the Track Record Period) may change from year to year, which in turn may be affected by various factors, including but not limited to changes in the Government's policies in relation to landslip prevention and mitigation, changes in the Government's public housing policy, the amount of investment in the construction of new infrastructure and improvement of existing infrastructure by the Government, the general financial conditions of the Government and the general economic conditions in Hong Kong. Any reduction or significant delay in the level of spending on construction projects by the Government or discontinuation of favourable Government programmes such as the Landslip Prevention and Mitigation Programme may affect our business and operating results. In the event that the Government reduces or delays its level of spending on construction projects and our Group fails to secure sufficient business through the private sector, the business and financial positions and prospects of our Group could be materially and adversely affected.

Increase in our cost of materials and other miscellaneous items under contra-charge arrangements with our customers may adversely affecting our operating results

During the course of our business, there may be occasions where our customers pay on our behalf for materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicles expenses required in our projects and subsequently deduct such payments when settling our service fees for the project. Such arrangement is generally known as "contra-charge arrangement" and the amounts involved are referred to as "contra-charge". For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our contra-charge incurred for the purchase of materials and other miscellaneous items from our top customers amounted to approximately HK\$12.9 million, HK\$30.2 million, HK\$34.4 million and HK\$9.6 million, representing approximately 14.4%, 20.1%, 15.3% and 7.7% of our cost of services for the corresponding year/period, respectively.

Our customers generally determine the cost of materials and other miscellaneous items supplied to us with reference to the market rate. Any significant increase in cost of materials and/or other miscellaneous items charged to us by our customers under contra-charge arrangements may significantly increase our costs of operation. If we are unable to factor in these potential purchase cost fluctuations in our tender price and/or pass on substantial increase in purchase costs to our customers, our costs of operation may substantially increase as a result and our Group's profitability, business operation and financial performance may be materially and adversely affected.

Rising costs of construction workers may increase our costs of operation

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our direct labour cost was approximately HK\$32.6 million, HK\$47.8 million, HK\$73.3 million and HK\$36.2 million, representing 36.4%, 31.8%, 32.7% and 28.7% of our cost of services, respectively. The Hong Kong construction industry has in general been facing the problem of labour shortage and aging workforce. According to the statistics of the Construction Industry Council, as at 31 January 2021, around 43.6% of the 551,000 registered construction workers in 2020 were aged over 50 whereas only about 14.0% were aged below

RISK FACTORS

30. The decline in the number of workers in Hong Kong, especially workers with skills and experience for slope works, may result in project delays and increasing operating costs. According to the Industry Report, the average daily wages of general workers in Hong Kong have increased from approximately HK\$898.7 in 2015 to approximately HK\$993.3 in 2020, representing a CAGR of approximately 2.0%, mainly due to labour shortage which was caused by a decreasing number of new workers as well as an aging workforce.

Where subcontractors are engaged, the fees charged by our subcontractors may be determined based on their own labour costs, plants and equipment cost and the costs of construction materials. Therefore, if labour costs in Hong Kong keep increasing, our subcontracting costs may increase in the future, which could materially and adversely affect our business operations and financial condition.

Subcontracting expenses are a significant component of our cost of services. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our subcontracting expenses were approximately HK\$24.8 million, HK\$43.2 million, HK\$61.2 million and HK\$36.5 million, representing 27.7%, 28.7%, 27.3% and 29.0% of our cost of services, respectively. The sensitivity analysis as disclosed in the paragraph headed “Financial information – Key factors affecting our results of operations and financial condition – Fluctuation in our cost of services” illustrates the impact of hypothetical fluctuations in our subcontracting expenses on our profits during the Track Record Period.

Our revenue is mainly derived from our slope works on a project-by-project basis and our business depends on our success rate on project tendering

During the Track Record Period, we undertake slope works on a project-by-project basis. Therefore, our customers are under no obligation to continue to award contracts to us and there is no guarantee that we will be able to secure new contracts in the future. Accordingly, the number and scale of contracts and the amount of revenue that we are able to derive therefrom are affected by a series of factors including but not limited to changes in our customers’ businesses, changes in market conditions and changes in Government policies.

Consequently, our revenue may vary significantly from period to period, and it may be difficult to forecast the volume of our future business. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we recorded a tender success rate of approximately 52.9%, 52.4%, 59.3% and 52.6%, respectively. Our tender success rate is affected by a range of factors including our pricing and tender strategy, competitors’ tender and pricing strategy, level of competition and our customers’ evaluation standards. There is no guarantee that we will be able to achieve a tender success rate similar to those during the Track Record Period in the future.

Depending on the then market condition and competitive landscape, we may have to lower our pricing or adjust our tender strategy in order to maintain the competitiveness of our tenders. In the event that our Group fails to secure new projects from our customers of contract values, size and/or margins comparable to existing ones, our business and financial performance and results of operations will be materially and adversely affected.

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Unsatisfactory performance by our subcontractors or unavailability of subcontractors may adversely affect our operations and profitability

Depending on the availability of our labour resources and the types of specialised works involved, we have from time to time subcontracted a portion of our works to subcontractors. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we incurred subcontracting expenses of approximately HK\$24.8 million, HK\$43.2 million, HK\$61.2 million and HK\$36.5 million, respectively.

There is no assurance that the quality of services of our subcontractors can meet the requirements of our Group or our customers. There is no assurance that we are able to monitor the performance of our subcontractors as directly and efficiently as with our direct labour. Therefore, the engagement of subcontractors exposes us to the risks associated with non-performance, late performance or sub-standard performance of our subcontractors. Since we remain accountable to our customers for the performance and quality of services rendered by our subcontractors, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could adversely affect our reputation, business operation, and financial position.

In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

Any significant cost overruns may materially and adversely affect our business operation and financial performance

Our projects are generally awarded through tender. The contract sum quoted in the tender is determined after evaluation of our scope of work and taking into account (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions. For further details on our pricing strategy, please refer to the paragraph headed "Business – Pricing strategy" in this listing document.

Our profitability is therefore dependent on our ability to manage our staff costs and secure services from our subcontractors with competitive fees at or below our estimated costs, as well as our ability to execute the projects efficiently.

There is no assurance that our actual costs incurred will not exceed the estimated costs. The actual amount of costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, difficult geological conditions, shortage and cost escalation of labour and materials, customers' variation orders, accidents, unforeseen site conditions, unanticipated technical problems, departure of key project management and supervision personnel involved, non-performance by our subcontractors,

RISK FACTORS

and other unforeseen problems and circumstances. Any under-estimation of costs, delay or other circumstances resulting in cost overruns may adversely affect our profitability, business operation and financial performance.

We are subject to credit risk in relation to the collectability of our contract assets and trade receivables

Contract assets represent our Group's rights to receive considerations from customers for the provision of slope works, which arise when: (i) our Group completed the relevant services under such contracts but yet to be certified by architects, surveyors or other representatives appointed by our customers; and (ii) our customers withhold certain amounts payable to our Group as retention money which is typically released after the expiry of the defect liability period of the construction projects. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to the customer. Our Group's contract assets comprised (i) unbilled revenue; and (ii) retention receivables.

Our Group recorded unbilled revenue of approximately HK\$15.9 million, HK\$17.8 million, HK\$38.6 million and HK\$30.6 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively. In addition, depending on the contract terms and our negotiation with customers, some of our customers may hold up a certain percentage of each payment made to us as retention money. Retention money generally represents up to 10% of each payment made to us subject to a maximum of 5% of the total contract sum. Typically, retention money withheld is generally released to us after the expiry of the defect liability period. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our retention receivables amounted to approximately HK\$1.2 million, HK\$3.4 million, HK\$11.9 million and HK\$15.7 million, respectively. Please refer to the paragraph headed "Financial information – Discussion on selected items from the consolidated statements of financial position – Contract assets" in this listing document for a further discussion and analysis regarding our contract assets. There is no assurance that we will be able to bill all or any part of contract assets for our services completed according to the payment terms of the contracts and there is no assurance that the retention money will be released by our customers to us on a timely basis and in full accordingly.

Further, there can be no assurance that our customers will settle our invoices on time and in full. As at 31 March 2018, 2019 and 2020 and 30 June 2021, we recorded trade receivables of approximately HK\$4.0 million, HK\$10.6 million, HK\$18.7 million and HK\$12.8 million, respectively. Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, our customer or its authorised person will examine and certify our works done by endorsing on our payment application or issuing a payment certificate to us. Nevertheless, some of our customers adopt a "pay when paid" policy with us and they have the right to process our payment application and pay us after collection of payments from their customers. In the event our customers fail to collect payment from their customers, this will, in turn, adversely affect the collectability of our payments from our customers. If we are unable to collect a substantial portion of our trade receivables within the payment terms or at all, our cash flows and financial positions will be adversely affected. In addition, we had concentration of credit risk in trade receivables as

RISK FACTORS

100% of our total trade receivables outstanding as at 31 December 2018, 2019 and 2020 and 30 June 2021, were due from our five largest customers for each of the corresponding year, respectively. Any difficulty in collecting a substantial portion of our trade receivables could materially and adversely affect our cash flows and financial positions.

We recorded net cash used in operating activities for the six months ended 30 June 2020

We recorded net cash used in operating activities of approximately HK\$6.1 million for the six months ended 30 June 2020. Please refer to the paragraph headed “Financial information – Liquidity and capital resources – Cash flows” in this listing document for further information. We cannot guarantee that we will be able to generate positive cash flows from operating activities in the future. In particular, we cannot predict the amount and timing of billing to or receipts from our customers for our contract assets and trade receivables. During the Track Record Period, our Group did not recognise any impairment loss on trade receivables and contract assets. Net cash used in operating activities may materially and adversely affect our liquidity and financial conditions, and hence may require us to obtain sufficient external financing to meet our financial needs and obligations. If we rely on external financing to generate additional cash, we will incur financing costs and we cannot assure you that we will be able to obtain external financing on terms acceptable to us, or at all.

We received government grants, which are non-recurring in nature, and there is no guarantee that we will continue to receive government grant at a similar level or at all

For FY2020 and the six months ended 30 June 2021, our Group received government grants of approximately HK\$4.3 million and HK\$1.3 million, respectively. Our Group recognised the subsidies of approximately HK\$4.3 million in relation to (i) Construction Industry Anti-epidemic Fund launched by the Construction Industry Council, which offered a one-off subsidy to eligible contractors, subcontractors and consultants of the construction industry; (ii) a one-off subsidy for registered owners of each eligible goods vehicle provided by the Transport Department; and (iii) Employment Support Scheme for Regular Employees and Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government which offered two tranches of financial support to employers for retaining their employees as part of the relief measures on COVID-19 during FY2020. During the six months ended 30 June 2021, our Group recognised the subsidies of approximately HK\$1.3 million in relation to Construction Innovation and Technology Fund launched by the Construction Industry Council and Employment Support Scheme for Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government as part of the relief measures on COVID-19. For further details, please refer to the paragraph headed “Financial information – Principal components of results of operations – Other income, gains and losses, net” in this listing document.

As those Government’s relief measures on COVID-19 pandemic are non-recurring in nature, we cannot guarantee that we will continue to receive government grants at a similar level or at all. In the event of any changes in government measures or policies, resulting in any suspension, material reduction or termination of government grants received by our Group, our profitability, financial conditions and results of operations may be affected.

RISK FACTORS

The total actual value of work done may differ from the original estimated contract sum stated in our contracts with customers

During the Track Record Period, our contracts with customers are mainly on re-measurement basis. The actual amount of works to be carried out by us under our contract is subject to the customer's orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual works done. There is no guarantee that our customer will continue to place work orders with us throughout the contract period. If there is no work order, we will not be able to charge the customer or to recognise revenue. Accordingly, the value of work orders and the amount of revenue that we are able to derive from such a contract may vary significantly from period to period.

Despite the uncertainty as to the amount of work orders that may be placed by such customers, we need to allocate labour, machinery and other resources to prepare for work orders over the relevant contract period based on our past experience and the volume of work orders placed by such customers in the past. In the event that such customer significantly reduce the amount of work orders during the relevant contract period for whatever reasons, our business operations and financial performance may be materially and adversely affected.

Any deterioration in the outbreak of COVID-19 may adversely affect our operation and financial condition

The first confirmed case of COVID-19 in Hong Kong was first reported in January 2020. Since then, there has been rounds of outbreak of COVID-19 in Hong Kong. The Government has announced various measures, including travel restrictions and safe distancing measures in order to reduce the risk of local transmission of COVID-19. There is no assurance that the outbreak of COVID-19 in Hong Kong can be effectively controlled and the Government will not impose more stringent measures such as closure of physical workplace premises, full-scale suspension of all business, social and other activities as well as other lockdown policy to control the spread of COVID-19.

The outbreak of COVID-19 in Hong Kong may have a material adverse impact on Hong Kong economy, which may lower the availability of slope works projects in Hong Kong. Any deterioration in the outbreak of COVID-19 may also lead to labour shortage, increase in wages of the workers and/or interruption of our business operations, temporary suspension or delay of the work progress of our projects. We cannot assure you that we will not experience any project delays or failure to complete our project according to the planned specifications, schedule and budget as a result of the outbreak of COVID-19, which may expose us to potential claims from customers for liquidated damages and result in adverse impact on our reputation, business, financial condition and results of operations.

RISK FACTORS

Our operations may also be affected if any of our employees or employees of our subcontractors is suspected of contracting or contracted COVID-19, since this may require us and our subcontractors to quarantine some or all of the relevant employees and disinfect our project sites and facilities used for our operations. These adverse impacts, if materialise and persist for a substantial period of time, may significantly and adversely affect our business operations and financial performance.

In addition, if the Government introduces further measures to combat the spread of COVID-19 including import controls or lockdown policy on a city-wide scale, there is no assurance that our suppliers would be able to (a) maintain their normal business operation without disruptions; and/or (b) deliver materials or services (including subcontracting services) to us without delay, and there is no guarantee that we would be able to source materials or services (including subcontracting services) from alternative suppliers or subcontractors in time if such measures persist for a substantial period.

Potential mismatch in time between receipt of progress payments from our customers, payment of project up-front costs, and payments to our suppliers and subcontractors may adversely affect our cash flows

We may experience net cash outflows as project up-front costs at the preliminary stage of a project which include installing temporary hoarding, performing site planning and surveying and setting up site offices. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to our customers. During the Track Record Period, depending on the scale of the projects, there was generally an average time period of two to six months since we incur up-front costs for the projects up to the time when we receive the first payment from our customers. In addition, our customers may withhold up to 10% of each of our progress payment as retention money and subject to a maximum of 5% of the total contract sum, which will be released to us upon the expiry of the defect liability period. As at 31 December 2018, 2019 and 2020 and 30 June 2021, retention receivables of approximately HK\$1.2 million, HK\$3.4 million, HK\$11.9 million and HK\$15.7 million, respectively were retained by our customers as retention money. Further, our customer may request us to provide performance bond in the amount of certain percentage of the estimated contract sum in favour of our customer, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Business – Our customers – Principal terms of engagement” in this listing document.

Accordingly, our cash flow typically turns from net outflows at the early stage of a project into accumulative net inflows gradually as the project progresses. This results in a cash flow gap and in the event that we have more projects at the initial stage or that a substantial amount of retention money from various projects are being withheld by our customers at any given point of time, our liquidity may be materially and adversely affected.

RISK FACTORS

Failure to complete our projects on a reliable and timely basis could materially affect our reputation, our financial performance or may subject us to claim

The contracts with our customers generally contain a liquidated damages clause under which we are liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally determined on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract.

Delay in a project may occur from time to time due to various unforeseen factors such as shortage of manpower, delays by subcontractors, industrial accidents, and delay in delivery of materials. If there is any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract. There is no assurance that there will not be any delay in our existing and future projects resulting in claims in relation to liquidated damages, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

We may be a party to legal proceedings from time to time and we cannot assure you that such legal proceedings will not have a material adverse impact on our business. In particular, there may be potential employees' compensation claims and common law personal injury claims

We may receive claims in respect of various matters from our customers, subcontractors, workers and other parties concerned with our works from time to time. Such claims may include in particular employees' compensation claims and common law personal injury claims in relation to personal injuries suffered by workers as a result of accidents arising out of and in the course of employment of the injured workers. During the Track Record Period and up to the Latest Practicable Date, we encountered several incidents of claims arising out of our operations. Please refer to the paragraph headed "Business – Litigations and claims" in this listing document for further information.

There is no assurance that we will not be involved in any claims or legal proceedings, nor can we assure you that any such claims or legal proceedings would not have a material adverse impact on our business. Should any claims against us fall outside the scope and/or limit of insurance coverage, our financial position may be adversely affected. Regardless of the merits of any outstanding and potential claims, we need to divert management resources and incur extra costs to handle these claims, which could affect our corporate image and reputation if they were published by the press. If the aforesaid claims were successfully made against our Group, we may need to pay damages and legal costs, which in turn could adversely affect our revenue, results of operations and financial position.

Legal proceedings can be time-consuming, expensive, and may divert our management's attention away from the operation of our business. Any claims or legal proceedings to which we may become a party in the future may have a material and adverse impact on our business.

RISK FACTORS

We are exposed to certain inherent risks relating to slope works

Prior to commencement of our projects, ground investigation may be conducted and our customers may supply us with the ground investigation report. However, information contained in these reports may not be sufficient to reveal the actual geology beneath our construction site due to technical limitations such as the limitation in the scope of underground investigation that can be carried out at the site.

There may be discrepancies between the actual geological conditions and the findings set out in these investigation reports. For instance, such investigations may not reveal the existence of rocks or identify any antiquities, monuments, structures beneath the site, artificial underground obstructions, bombs, contaminated soil, presence of unknown obstacles due to historical use of site, existing methane gas generated during construction, collapse of temporary structures, and land subsidence which may not have been anticipated at the preliminary stage. Such difficult or dangerous conditions at the underground level or at the work site may cause difficulties to our work, affect our work progress, incur additional project expenses and result in personal injuries or even fatality of our site workers.

Our insurance coverage may not be adequate to cover potential liabilities

Certain risks disclosed elsewhere in this section such as risks in relation to customer concentration, our ability to obtain new contracts, our ability to retain and attract personnel, availability and performance of subcontractors, project and cost management, our ability to maintain and renew our registrations, credit risk and liquidity risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Insurance policies covering losses from acts of war, terrorism, or natural catastrophes are also either unavailable or cost prohibitive.

Further, we may be subject to liabilities against which we are not insured adequately or at all or liabilities against which cannot be insured. Should any significant liabilities arise due to accidents, natural disasters, or other events which are not covered or are inadequately covered by our insurance, our business may be adversely affected, potentially lead to a loss of assets, lawsuits, employee compensation obligations, or other forms of economic loss.

We cannot guarantee that our current levels of insurance are sufficient to cover all potential risks and losses. In addition, we cannot guarantee that we can renew our policies or can renew our policies on similar or other acceptable terms. If we suffer from severe unexpected losses or losses that far exceed the policy limits, it could have a material and adverse effect on our business, financial position, results of operations and prospect.

RISK FACTORS

There is no assurance that we will be able to renew our registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council

A-City Workshop, our principal operating subsidiary, is currently registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council, which is due for renewal upon its expiry on 6 February 2024. Main contractors of certain types of public sector projects are required to engage subcontractors who are registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council.

Renewal of registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) is required every five years and is generally subject to certain technical and relevant industry experience requirements. A-City Workshop did not encounter any failure in renewing its registration under the Registered Specialist Trade Contractors Scheme since it first obtained the registration. There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, our reputation, our ability to obtain future businesses, and our business and financial position and prospects could be materially and adversely affected.

We must be able to remain on the List of Approved Specialist Contractors for Public Works in order to directly tender for Government contracts and any failure in doing so could significantly hinder our business and affect our future financial results

A-City Workshop, our principal operating subsidiary, is registered as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Being on such list is a prerequisite for tendering for public slope works contracts directly from the Government.

The retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria as stipulated in the Contractor Management Handbook revised and published by the Development Bureau in January 2021. Such criteria are summarised in the paragraph headed “Regulatory overview – Contractor licensing regime and operation – Requirement for the application of registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works” in this listing document. The Secretary for Development of the Government reserves the right to remove any contractor from the List of Approved Specialist Contractors for Public Works or take other regulatory actions against a contractor such as suspension, or where applicable, downgrading from confirmed status to probationary status if doubts arise as to the ability of a contractor to meet such criteria. Circumstances which may lead to the taking of regulatory actions include unsatisfactory performance, failure to submit accounts or meet the financial criteria, poor site safety record, poor environmental performance, failure to submit a valid competitive tender for a period of three years, failure or refusal to implement an accepted tender, misconduct, violation of laws, etc.

RISK FACTORS

In the event that A-City Workshop fails to remain on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls” or if any of the aforesaid regulatory actions is taken against it such as suspension, the business and financial positions and prospects of our Group could be materially and adversely affected.

Failure to properly supervise site works as a Registered Specialist Contractor may result in prosecution or disciplinary action

A-City Workshop is registered as a Registered Specialist Contractor under the sub-register of “site formation works” category. For private sector projects, a person is required to appoint a Registered Specialist Contractor to carry out specialised works (such as site formation works) pursuant to section 9 of the Buildings Ordinance. Therefore, our customers may appoint us to act as a Registered Specialist Contractor pursuant to the requirement of section 9 of the Buildings Ordinance. The duties of a Registered Specialist Contractors are: (i) to provide continuous supervision to the carrying out of the works; (ii) to notify the Building Authority of any contravention of the regulations that would result from carrying out the works; and (iii) to comply generally with the Buildings Ordinance.

If we are appointed by our customer to act as a Registered Specialist Contractor in a private sector project and we fail to properly supervise the carrying out of the site works pursuant to the requirements of the Buildings Ordinance, we and our Directors may be subject to prosecution or disciplinary action, details of which are set out in the paragraph headed “Regulatory overview – Contractor licensing regime and operation” in this listing document. There is no assurance that such incidents will not occur in the future. In such event, our reputation, business operations and financial position may be materially and adversely affected.

There is no assurance that we will be able to renew our registration with the Buildings Department as a Registered Specialist Contractor in the future

A-City Workshop is currently registered as a Registered Specialist Contractor under the sub-register of “site formation works” category since June 2017, which is due for renewal upon its expiry on 19 May 2023. Renewal of the aforementioned registration with the Buildings Department is required every three years. Pursuant to the Buildings Ordinance, the Building Authority may refuse an application for renewal of registration (a) if it is satisfied that the applicant is no longer suitable (for any reason) for registration on the relevant register; or (b) if the applicant fails to provide relevant information and documentary proof required by the Building Authority. According to the Practice Note for Registered Contractors No. 38 issued by the Buildings Department, in considering an application for renewal of registration, the Building Authority may take into account, among other factors, whether the applicant is inactive in the relevant works and whether the applicant has any conviction, disciplinary or suspension records in respect of labour safety offences, malpractice or misconduct in building works or construction related activities, provisions under the Buildings Ordinance, etc.

RISK FACTORS

There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, the business and financial positions and prospects of our Group could be materially and adversely affected.

Our historical revenue, gross profit and gross profit margin may not be indicative of our future performance

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our gross profit amounted to approximately HK\$21.6 million, HK\$33.4 million, HK\$51.6 million HK\$28.8 million, respectively; while our gross profit margin was 19.4%, 18.1%, 18.7% and 18.6%, respectively. However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

There is an inherent risk in using our historical financial information to project our future financial performance, as they do not have any positive implication or may only reflect on our past performance under certain conditions. Our future performance will depend on, among others, our ability to secure new contracts, control our costs, market conditions in Hong Kong, and competition among contractors. All these may reduce the number of projects awarded to us and/or limit profit margin of our projects.

In addition, our profit margin may also fluctuate from period to period due to factors such as (i) our ability to accurately estimate our costs when submitting a tender; (ii) the complexity and size of the project; (iii) subcontracting expenses; (iv) prices of materials; and (v) our pricing strategy. There is no assurance that our profit margin will remain stable in the future and that we can maintain our current level of performance.

Our success and continued growth are dependent on our key management team

Our Directors believe that our success, to a large extent, is attributable to, among other things, the contribution of Mr. Ho and Mr. Sieh, each being our executive Director, and Mr. Lau Chiu Ming, our project manager. Details of their background and experience are set out in the section headed “Directors and senior management” in this listing document.

Our key personnel as well as their experience in the slope works industry in Hong Kong are crucial to our operations and financial performance. In addition, in order for A-City Workshop to maintain its registration as a Registered Specialist Contractor under the sub-register of “site formation works” category, among other things, A-City Workshop must have a minimum of one Authorised Signatory to act for it for the purpose of the Buildings Ordinance and one Technical Director who shall, among other things, provide technical support for the execution of works and ensure that the works are carried out in accordance with the Buildings Ordinance. As at the Latest Practicable Date, both the roles of Authorised Signatory and Technical Director of A-City Workshop were taken up by Mr. Ho.

RISK FACTORS

Although we have entered into a service agreement with each of our executive Directors, there could be an adverse impact on our operations should any of our executive Directors terminate his service agreement with us or otherwise cease to serve our Group and appropriate persons could not be found to replace them. There is no assurance that we will be able to attract and retain capable staff in the future. In such event, the business and financial positions and prospects of our Group as well as our ability to maintain our licences and qualifications could be materially and adversely affected.

We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

The Government's budget and funding for slope works projects may be adversely affected by lawmakers' filibustering in the Legislative Council

The majority of our Group's revenue during the Track Record Period was derived from public sector projects. However, in recent years, filibustering by Hong Kong lawmakers has in certain cases led to the failure of or delay in the funding approval for certain public sector projects by the committees of the Legislative Council. Therefore, there is a risk that the Government's budget and funding for slope works projects (and/or for infrastructure or other public projects that involve or require slope works) may be delayed, reduced or otherwise adversely affected as a result of lawmakers' filibustering in the Legislative Council. In addition, there is also a risk that after being awarded with a Government slope works contract, the commencement date and the scope of works may be delayed, reduced, or otherwise adversely affected as a result of lawmakers' filibustering in the Legislative Council. In such cases, our business and financial position and prospect could be materially and adversely affected.

Industrial actions or strikes may affect our business

Typical construction works are divided into various disciplines, and each requires highly specialised labour. Industrial action of any one discipline may disrupt the progress of our construction works. During the Track Record Period, our projects did not encounter any strike action. However, there is no assurance that industrial actions or strikes will not be launched in the future. Such industrial actions or strikes may adversely impact our business performance and hence profitability and results of operation. Any delays in completing our works caused by such action may affect our business, financial conditions and results of operations.

RISK FACTORS

RISKS RELATING TO THE SHARES

Our Shareholders may experience dilution if we issue additional Shares in the future

Our Company may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of our Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, we may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the existing Shares.

Any disposal by our Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares

There is no guarantee that our Controlling Shareholders will not dispose of their Shares in the future. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares

Prevailing market price of Shares may be negatively impacted by future issue of Shares by our Company or the disposal of Shares by any of its Shareholders or the perception that such issue or sale may occur. We cannot give any assurance that they will not dispose of Shares they may own now or in the future.

RISKS RELATING TO THIS LISTING DOCUMENT

Statistics and industry information contained in this listing document may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section “Industry overview” and elsewhere in this listing document relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. In addition, certain information and statistics set forth in this listing document have been extracted from a market research report commissioned by us and prepared by F&S, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and

RISK FACTORS

reproduce the publications and industry-related sources in this listing document. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sponsor, nor any parties involved in the Transfer of Listing have independently verified, or make any representation as to, the accuracy of such information and statistics from official government sources. It cannot be assured that statistics derived from official government sources will be prepared on a comparable basis or that such information and statistics from official government sources will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly such information and statistics from official government sources may not be accurate and should not be unduly relied upon.

Our Group’s future results could differ materially from those expressed or implied by the forward-looking statements

Included in this listing document are various forward-looking statements that are based on various assumptions. Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed “Forward-looking Statements” in this listing document.

Investors should read the entire listing document carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this listing document

There may be coverage in the media regarding the Transfer of Listing and our operations. There had been, prior to the publication of this listing document, and there may be, subsequent to the date of this listing document but prior to the completion of the Transfer of Listing, press and media coverage regarding us and the Transfer of Listing, which contained, among other matters, certain financial information, projections, valuations and other forward-looking information about us and the Transfer of Listing. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this listing document, we disclaim it. Accordingly, prospective investors should read the entire listing document carefully and should not rely on any of the information in press articles or other media coverage. Prospective investors should only rely on the information contained in this listing document to make investment decisions about us.

INFORMATION ABOUT THIS LISTING DOCUMENT AND THE TRANSFER OF LISTING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS LISTING DOCUMENT

This listing document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Main Board Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, (i) the information contained in this listing document is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement in this listing document misleading; and (iii) all opinions expressed in this listing document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE TRANSFER OF LISTING

This listing document is published solely in connection with the Transfer of Listing. It may not be used for other purpose and, in particular, no person is authorised to use or reproduce this listing document or any part hereof in connection with any offering of Shares or securities of our Company. Accordingly, this listing document does not constitute an offer or invitation in any jurisdiction to acquire, subscribe for or purchase any of the Shares or other securities of our Company nor is it calculated to invite any offer or invitation for any of the Shares or other securities of our Company.

No person is authorised to give any information in connection with the Transfer of Listing or to make any representation not contained in this listing document, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sponsor, any of our or their respective directors, agents, employees or advisers or any other party involved in the Transfer of Listing.

APPLICATION FOR LISTING ON THE MAIN BOARD

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued upon the exercise of the share options which may be granted under the Share Option Scheme, on the Main Board by way of the Transfer of Listing.

The Shares are currently listed on GEM.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All Shares are registered on the branch register of members maintained in Hong Kong in order to enable them to be traded on the Main Board upon the Transfer of Listing. Only Shares registered on the branch register of members maintained in Hong Kong may be traded on the Main Board upon the Transfer of Listing, unless the Stock Exchange otherwise

INFORMATION ABOUT THIS LISTING DOCUMENT AND THE TRANSFER OF LISTING

agrees. Dealings in the Shares registered on the branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Unless determined otherwise by our Company, dividends payable in HKD in respect of the Shares will be paid by cheque and sent at our Shareholder's risk to the registered address of each Shareholder or in the case of joint holders, the first named Shareholder.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding of, purchasing of, disposal of or dealing in, the Shares or the exercise of their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other person or party involved in the Transfer of Listing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding of, purchasing of, disposal of or dealing in, the Shares or the exercise of their rights thereunder.

ROUNDING

Certain amounts and percentage figures included in this listing document have been subject to rounding adjustments. As a result, any discrepancies in any table or chart set out in this listing document between totals and sums of individual amounts listed therein are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

SHARES WILL CONTINUE TO BE ACCEPTED AS ELIGIBLE SECURITIES BY HKSCC INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 13 December 2019, being the date on which dealings in the Shares first commenced on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares commence on the Main Board. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

INFORMATION ABOUT THIS LISTING DOCUMENT AND THE TRANSFER OF LISTING

COMMENCEMENT OF DEALINGS IN THE SHARES ON THE MAIN BOARD

The last day of dealings in the Shares on GEM (stock code on GEM: 8216) will be Thursday, 30 December 2021. Dealings in the Shares on the Main Board are expected to commence at 9:00 a.m. on Friday, 31 December 2021. The Shares will be traded on the Main Board under the new stock code 2295 following the Transfer of Listing.

LANGUAGE

If there is any inconsistency between this listing document and the Chinese translation of this listing document, this listing document shall prevail.

CURRENCY TRANSLATIONS

Unless otherwise specified, translations of US\$ into HK\$ (or vice versa) in this listing document are based on the exchange rate set out below (for illustration purposes only):

US\$1.00: HK\$7.80

No representation is made that any amounts in US\$ and HK\$ can be or could have been converted at the relevant dates at the above exchange rate or any other rate or at all.

DIRECTORS AND PARTIES INVOLVED IN THE TRANSFER OF LISTING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Ho Ka Ki (何家淇先生)	Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay Hong Kong	Chinese
Mr. Sieh Shing Kee (謝城基先生)	Flat A, 55/F Tower 6, Manhattan Hill No. 1 Po Lun Street, Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Tso Ping Cheong Brian (曹炳昌先生)	Flat A, 10/F Tower 2, Pacific Palisades North Point Hong Kong	Chinese
Mr. Kwong Che Sing (龐志成先生)	Flat D, 3/F On Lung Building 86 Mei King Street To Kwa Wan Hong Kong	Chinese
Mr. Ling Siu Tsang (凌肇曾先生)	Flat B, 4/F Kwun Fung Mansion Lei King Wan Sai Wan Ho Hong Kong	Chinese
Ms. Chiao Siu Ling (趙少玲女士)	Room 2602, 26/F Block F, Westlands Gardens Quarry Bay Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” in this listing document for further details of our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE TRANSFER OF LISTING

PARTIES INVOLVED

Sponsor

Kingsway Capital Limited

A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Financial adviser to our Company

Grande Capital Limited

A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity

Room 2701, 27/F
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18 Harcourt Road
Admiralty
Hong Kong

Legal advisers to our Company

As to Hong Kong law

Loeb & Loeb LLP

Solicitors, Hong Kong
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1 Connaught Place
Central
Hong Kong

Mr. Chan Chung

Barrister-at-law
10th Floor, Grand Building
15-18 Connaught Road
Central
Hong Kong

As to Cayman Islands law

Conyers Dill & Pearman

Cayman Islands attorneys-at-law
29th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE TRANSFER OF LISTING

Legal advisers to the Sponsor

As to Hong Kong law
David Fong & Co.
Solicitors, Hong Kong
Unit A, 12/F
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

**Reporting accountants and
auditors**

Grant Thornton Hong Kong Limited
Certified Public Accountants
11th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Industry consultant

Frost & Sullivan Limited
Suite 1706, One Exchange Square
8 Connaught Place
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit 1A, 6/F Harbour Crystal Centre 100 Granville Road Tsim Sha Tsui Hong Kong
Company secretary	Mr. Lam Kau Wang (林教宏先生) (<i>HKICPA, ACCA</i>) Flat A, 15/F, Tower 2A MALIBU, Lohas Park Phase VA Tseung Kwan O, New Territories Hong Kong
Authorised representatives	Mr. Ho Ka Ki (何家淇先生) Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay Hong Kong Mr. Lam Kau Wang (林教宏先生) (<i>HKICPA, ACCA</i>) Flat A, 15/F, Tower 2A MALIBU, Lohas Park Phase VA Tseung Kwan O, New Territories Hong Kong
Compliance adviser	Grande Capital Limited <i>A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity</i> Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road Admiralty Hong Kong
Compliance officer	Mr. Ho Ka Ki (何家淇先生) Flat A, 12/F Nam Hoi Mansion Taikoo Shing Quarry Bay Hong Kong

CORPORATE INFORMATION

Audit committee	Mr. Tso Ping Cheong Brian (曹炳昌先生) (<i>Chairman</i>) Mr. Kwong Che Sing (鄺志成先生) Mr. Ling Siu Tsang (凌肇曾先生) Ms. Chiao Siu Ling (趙少玲女士)
Remuneration committee	Mr. Ling Siu Tsang (凌肇曾先生) (<i>Chairman</i>) Mr. Sieh Shing Kee (謝城基先生) Mr. Kwong Che Sing (鄺志成先生) Ms. Chiao Siu Ling (趙少玲女士)
Nomination committee	Mr. Sieh Shing Kee (謝城基先生) (<i>Chairman</i>) Mr. Kwong Che Sing (鄺志成先生) Mr. Ling Siu Tsang (凌肇曾先生) Ms. Chiao Siu Ling (趙少玲女士)
Cayman Islands principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar and transfer office	Boardroom Share Registrars (HK) Limited Room 2103B, 21/F 148 Electric Road North Point Hong Kong
Principal bank	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong
Company website	www.maxicity.com.hk (<i>information contained in such website does not form part of this listing document</i>)

INDUSTRY OVERVIEW

The information contained in this section, unless otherwise indicated, have been derived from various official government publications and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of the information in this section and elsewhere in this listing document are appropriate and we have taken reasonable and cautious care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. We, the Sponsor, any of our or their respective directors, employees, agents, representatives, affiliates and advisers and all other parties involved in the Transfer of Listing have not independently verified and have made no representation as to, the completeness, accuracy or fairness of such information from official government sources (which for the purpose of this paragraph, excludes Frost & Sullivan). Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled. Accordingly, the information from official government publications contained herein may not be accurate and should not be unduly relied on.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the slope works market in Hong Kong. The report prepared by Frost & Sullivan for us is referred to in this listing document as Industry Report. We agreed to pay Frost & Sullivan a fee of HK\$130,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the Industry Report in this listing document because we believe this information facilitates an understanding of the slope works market in Hong Kong for the prospective investors. The Industry Report includes information of the slope works market in Hong Kong as well as other economic data, which have been quoted in this listing document. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the slope works market in Hong Kong. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Industry Report, various official government publications and other publications.

INDUSTRY OVERVIEW

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the steady development of the slope works market in Hong Kong.

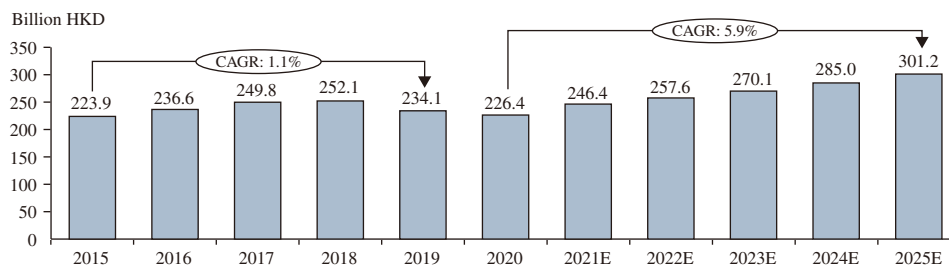
OVERVIEW OF HONG KONG CONSTRUCTION INDUSTRY

Gross value of construction works performed

The construction industry in Hong Kong accounted for approximately 9.3% to 8.4% of the GDP of Hong Kong from 2015 to 2020. According to the Census and Statistics Department of Hong Kong, the gross value of construction works performed in Hong Kong increased from approximately HK\$223.9 billion in 2015 to approximately HK\$234.1 billion in 2019, representing a CAGR of 1.1%. The growth was primarily driven by the increase in construction activities for key infrastructure and property development projects, namely the revitalisation of ageing buildings, rising residential supply, and the new towns development. Slope works are positively correlated to the number of buildings as more man-made slopes are constructed in those real estate projects. Driven by the continuous investment in infrastructure projects, including the improvement and upgrade of buildings and facilities and construction of new buildings, the pace of growth in construction works is expected to be maintained, which in turn lead to an increase in gross value of construction works performed. The gross value of construction works performed in Hong Kong is expected to grow steadily at a CAGR of 5.9% during 2020 to 2025.

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects commissioned by the Government or Government-related organisations while private sector projects refer to projects commissioned by individuals, property developers, property owners and main contractors who are engaged in property development.

Gross value of construction works performed (Hong Kong), 2015-2025E



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

INDUSTRY OVERVIEW

OVERVIEW OF HONG KONG SLOPE WORKS INDUSTRY

Value Chain Analysis

The value chain of Hong Kong slope works market consists of upstream government department and property developers, who are the owners of slopes, midstream engineering consultancies and contractors, and downstream raw material and equipment suppliers. Government departments, such as Geotechnical Engineering Office (“GEO”) conduct regular studies on every slope around Hong Kong under Landslip Prevention and Mitigation Programme (“LPMitP”) and invite tenders from the engineering consultancies and slope works contractors if there are necessary landslip prevention and mitigation works to be carried out. On the other hand, Buildings Department is responsible for taking statutory actions against private slope owners in order to maintain the safety of the privately-owned slopes. In general, GEO first engages engineering consultants in the landslip prevention and mitigation studies.

Contractors generally engage sub-contractors with specialist licenses or specialties in certain aspects, including slope works, to carry out a portion of site works under their contracts. The criteria for selecting contractors are mainly based on the track records, business relationship and capital requirements. Slope works subcontractors are responsible for the sourcing of suitable raw materials and equipment for their slope works from the raw material and equipment suppliers.

Customer concentration is an industry norm in the slope works industry in Hong Kong. Customer generally prefer to engage slope works contractors with industry reputation, comprehensive services offering, technical expertise, proven track record and sound financial capability. Customers are generally inclined to engage slope works contractors of larger operating scale for sizeable projects. In particular, a sizeable slope works project would normally have a contract sum of approximately HK\$30 million or above. To ensure such sizeable slope works project could be completed on time and within budget, the main contractors or property owners would prefer to engage the established market players in the slope works industry who possess the requisite expertise, experience and resources to handle such projects reliably. The top five largest players in the slope works industry in Hong Kong (including our Group) had an estimated revenue ranging from approximately HK\$115.6 million to HK\$335.9 million in the year of 2020. As such, where a slope works contractor obtains one or multiple sizeable projects each with contract sum of HK\$30 million or above, such projects would likely contribute a significant portion of its revenue in the forthcoming years and hence this may result in customer concentration for such slope works contractor in the relevant periods.

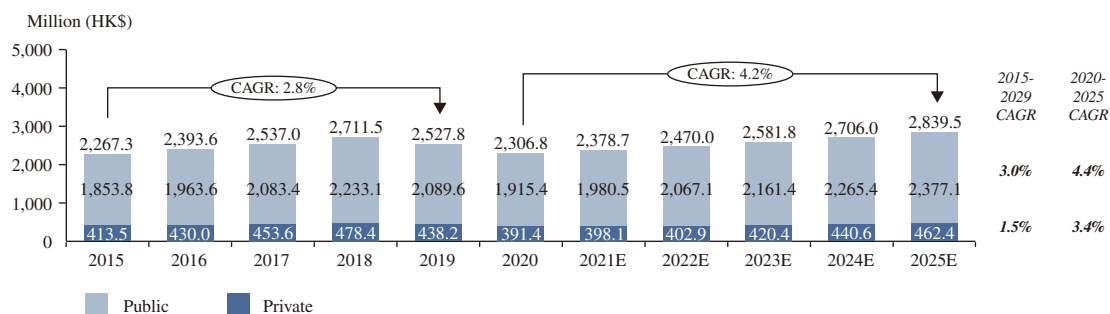
Market Size

The revenue of slope works in Hong Kong (public and private sector in aggregate) increased from approximately HK\$2,267.3 million in 2015 to approximately HK\$2,711.5 million in 2018, while slope works in public sector has been the main source of revenue. Imputed to social unrest and the outbreak of the COVID-19 in 2019 and 2020 respectively, the project quantity and project value of LPMitP initiated by the Government has been sharply contracted, the revenue of public slope works has plunged to approximately

INDUSTRY OVERVIEW

HK\$2,089.6 million in 2019 and further diminished to HK\$1,915.4 million in 2020. Since early 2021, the number of cases of COVID-19 in Hong Kong has remained relatively stable and the efforts from the Government have contributed towards an effective control of the epidemic. In the long run, the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong's slope works industry due to the fact that (i) as put forward in the Hong Kong 2021-2022 Budget by the Government, the financial provision on slope safety and geotechnical standards has increased from HK\$416.9 million to HK\$441.7 million during 2019 to 2021, representing a CAGR of approximately 2.9%. The programme is deployed with a view to exercising geotechnical control on private and public developments, register slopes, implement the LPMitP programme, provide landslide emergency service, investigate serious landslides, set geotechnical standards, undertake public education and advise private slope owners on slope safety. As such, the increasing financial and strategic effort dedicated by the Government is expected to propel the slope works industry; (ii) the Government has estimated the number of new slope features registered to reach 450 units in 2021, as compared to 440 units and 429 units for 2019 and 2020, respectively. The continuous registration of new slope is expected to underpin the growth of slope works industry; and (iii) the major construction projects in Hong Kong ranging from roads, housing shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected. Coupled with the rising safety standard for man-made slope and natural hillsides, the demand for slope works is expected to recover gradually in the future. The estimated revenue of slope works in Hong Kong is forecasted to experience a growth from approximately HK\$2,306.8 million in 2020 to approximately HK\$2,839.5 million in 2025, at a CAGR of 4.2%.

Revenue of slope works by public and private sector (Hong Kong), 2015-2025E



Source: Frost & Sullivan

Slopes works correlate to the construction industry as it is the subset of demolition and site preparation, which is performed in the buildings and infrastructure development. The slope works projects in public sector are mainly initiated by the Agriculture, Fisheries and Conservation Department, Lands Department, Water Supplies Department, Highways Department, Architectural Services Department and Civil Engineering and Development Department.

INDUSTRY OVERVIEW

MARKET DRIVERS

The development of slope works industry is closely related to the construction industry as a whole, and the slope works industry is expected to benefit from the following market drivers:

1. Promotion of Landslip Prevention and Mitigation Programme (LPMitP)

The launching of LPMitP by the GEO in 2010 is considered one of the key drivers for the Hong Kong slope works market. LPMitP regularly monitors the situation of all slopes in Hong Kong to mitigate the risks associated with both man-made slopes and natural hillside. Since the launching of LPMitP, GEO has spent about HK\$25.2 billion on landslip prevention and mitigation studies and works; more than 6,140 Government man-made slopes were upgraded, more than 330 mitigation works for natural hillside had been implemented and more than 6,100 private man-made slopes were studied and evaluated for safety screening. Coupled with the increasing population and more buildings sit next to steep slopes, it is expected that the Government will put more effort on the promotion of LPMitP to ensure the safety of all man-made slope and natural hillside. With the continuous efforts by the Government in this regard to slope safety, the demand for slope works is expected to rise accordingly.

2. Demand for slope works from large scale public infrastructure projects

In light of the mountainous landscape in Hong Kong, the expedite development of infrastructure induces humongous demand for slope works. In Policy Address in 2020, the Government acknowledged that investment in infrastructure is conducive to economic development and shall not be scaled back in periods of economic downturn. Projects such as the extension of mass transit railway lines, new roadways, transform areas in Kwun Tong, Kowloon Bay and Kai Tak and Island South initiative, have entailed demand and requirement in slope works and maintenance studies, such as developing earth reinforced retaining walls and cut back slopes for road works railways and hill-side building developments. Studies to ensure adequate surface drainage and stabilisation after construction is also key to slope safety for new roadways, railways and new building sites. As such, the committed annual expenditure by the Government of over HKD100 billion on average over the next few years as put forward in the Policy Address 2020, is set to favour the growth of the slope works industry.

3. Rising supply of residential buildings and slope converted net site area

Slope stabilisation and reinforcement works are ubiquitous at existing and new residential building sites. Thus, the Hong Kong slope works market has been underpinned by the flourishing supply of public and private housing, which are instigated by Government initiatives and supplementary policies as well as active involvement of private property developer. According to the Long Term Housing Strategy (LTHS) as at December 2020, the total housing supply target for the ten-year period from 2021 to 2030 is approximately 430,000 units with a public/private split of 70:30, comprising 210,000 public rental housing units and 91,000 subsidised sale flats to cope with the growing demand from low-to-middle income families in Hong Kong. As mapped out in the Policy Address 2020 addressed by the

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Chief Executive, the Long Term Housing Strategy Annual Progress Report published by the Transport and Housing Bureau has identified 330 hectares of land required for providing 316,000 public housing units to meet the demand in the coming 10 years i.e. 2021-2030. Such sizeable amount primarily comes from reclamation land as well as utilisation of brownfields. Housing Authority also remarked that areas that used to be occupied by slopes, could be taken into account in the calculation of the net site area for public flat building, through leveraging site formation techniques that cut into hills and blasting rocks, which contribute to the increasing demand for modification of slopes. For private sector, the Government envisaged an estimated average annual production of about 19,600 units in the upcoming five years from 2020 to 2025, substantially greater than the average production of about 15,600 units in the past five years from 2015 to 2019. Accordingly, the number of new man-made slopes and slope safety measures such as retaining walls, steel and concrete barriers, and slope stabilisation works are expected to increase as a result of new housing developments, inducing the demand for slope works.

4. Technology advancement in slope engineering

In order to enhance the safety condition of man-made slopes and increase the efficiency of the mitigation measures implemented on natural hillsides, the Hong Kong Government has been continuously working with academia and experienced slope engineering professionals to develop innovative slope work solution. In particular in 2020, the GEO rolled out a suite of technology enabled measures, encompassing (i) deployment of Artificial-Intelligence-incorporated robots with a view to monitor the landslide prone area using optical radar, to analyse data and to assess the slope risk in order to formulate prompt mitigation measures; and (ii) installation of “Smart Barrier” system, which assess on-site status, record and transfer real time data and notify engineers automatically to alert surrounding residents. Leveraging the Slope Maintenance Responsibility Information System (SMRIS) developed by the Lands Department that record information of slopes comprehensively in Hong Kong, a synergy effect is created between data and practical apparatus, collaboratively reduce disasters induced by slope instabilities. On the other hand, the slope work market participants in Hong Kong are adopting more advanced technologies and engineering methodologies, such as adoption of wireless tilt and vibration monitoring system, to improve the overall work efficiency and quality, and to cater the changing requirements from the clients, i.e., the Government. The evolution of slope engineering further facilitates the problem identification, risk distribution examination, and risk strategy formulation in prioritisation and resources allocation. The enhanced landslide risk management expedite the urban development, which in turn increase the demand for slope works.

5. Government engagement in private sector

According to the Buildings Department, amongst the 60,000 man-made slopes registered in Hong Kong, private slopes take up for one-third of the total amount. Stipulated in the Section 27A of the Building Ordinance, when a private slope or retaining wall is found to be dangerous or liable to become dangerous, the Buildings Department will serve a “Dangerous Hillside Order” (DH) to require private owners to investigate and rectify the slope. As such, with a view to arousing public attention on related slope safety issue, the GEO has set up a Community Advisory Unit (CAU) to assist private owners to discharge

INDUSTRY OVERVIEW

their slope maintenance responsibility through direct community outreach advisory and information services. The CAU offers assistance by holding consulting sessions with Owners' Corporations and Mutual Aid Committees to formulate action plan to undertake slope maintenance works. The CAU has also dedicated increasing effort on organising seminars and meeting private owners who have received DH Orders to advise them on how to proceed with the necessary slope upgrading works. In the long run, the active Government engagement is expected to induce growing demand for slope works in the private sector.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

According to the Buildings Department, there are more than 200 contractors registered on the list of "Register of Specialist Contractors" under the sub-register of site formation works category. The slope works market in Hong Kong is relatively concentrated with the top five players contributing to 50.5% of the entire market in terms of revenue. According to the Development Bureau, there are 41 approved contractors who are eligible to tender for the public works of landslip preventive and remedial works to slopes or retaining walls as at the Latest Practicable Date. The revenue of our Group was approximately HK\$276.0 million in 2020, accounting for approximately 12.0% market share in the slope works market in Hong Kong in terms of revenue. Our Group ranked the third in the Hong Kong slope works market in terms of revenue in 2020.

Top five largest players in the slope works industry in Hong Kong, 2020

Rank	Company	Revenue in 2020 (HK\$'million)	Approximate market share (%)
1	China Geo-Engineering Corporation	335.9	14.5%
2	Geotech Engineering Limited	318.4	13.8%
3	Our Group	276.0	12.0%
4	Ming Hing Waterworks Engineering Company Limited	120.0	5.2%
5	Tai Kam Construction Engineering Company Limited	115.6	5.0%
	Top five subtotal	1,165.9	50.5%
	Others	1,140.9	49.5%
	Total	<u>2,306.8</u>	<u>100.0%</u>

Source: Frost & Sullivan

Notes:

China Geo-Engineering Corporation is a private Chinese company engaging in construction of industrial, energy, transportation, and municipal works.

Geotech Engineering Limited is a Hong Kong company listed on the Stock Exchange primarily engaged in the slope works in Hong Kong as main contractor.

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Ming Hing Waterworks Engineering Company Limited is a private Hong Kong-based company principally engaged in the provision of maintenance and construction works on civil engineering contracts including waterworks engineering, road works and drainage, as well as slope upgrading and maintenance services in Hong Kong.

Tai Kam Construction Engineering Company Limited is a public Hong Kong company listed on the Stock Exchange in 2016 and primarily engaged in slope works construction.

FACTOR OF COMPETITION

1. Recognition and qualification

In Hong Kong slope works market, recognition and qualification is one of the key factors of competition. Contractors are required to be registered on the List of Approved Specialist Contractors for Public Works from the Development Bureau in order to tender for public slope works projects directly from the Government. The details of the registered contractors, such as works categories and contract value of public works for tendering are shown to the public and potential clients. When construction contractors and private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works which is publicly available on the website of the Development Bureau because such list provides them with assurance on the track record, financial position and the service quality of the registered contractors. Besides, as slope works involve different aspects of technical know-how (including design of foundation and methods of site works), main contractors typically prefer to engage subcontractors who possess strong academic background and qualifications in the engineering field for handling the technical and contract administration of the projects. The approved contractors are recognised by its proven project reference in building industry and experience in managing related projects, which enables the company to enjoy an edge in the industry. In addition, slope works contractors obtaining international recognised certificates including ISO 9001, OHSAS 18001, ISO 45001 and ISO 14001 regarding quality management system, occupational health and safety management system and environmental management system are more competitive in the market.

2. Track record and quality of works

Slope works contractors are required to carry out high quality of work within tight schedule and budget. Any defects of the finished works may potentially lead to catastrophic consequences, i.e. landslide, or require further improvement works to rectify the issue. Furthermore, the potential clients, including the Government and main contractors, would consider the factors of quality of works, timeliness of project delivery as well as capability of meeting safety and environmental requirements as part of the assessment criteria for tender awards. The Development Bureau sets out that the suitability of a contractor for inclusion in the approved specialist contractor for the LPMitP and is assessed on the basis of both the contractor's global business activity and business activity in Hong Kong. While initial admission will be categories into "on probation" group, new industry players shall maintain competitiveness and garner project exposure to establish a trustworthy profile. As a result, contractors with better performance on these criteria can stand out from the market. Ongoing investment in machinery and construction equipment enables the companies to

INDUSTRY OVERVIEW

access and deploy more machinery to the slope works projects, which in turn improves the execution effectiveness and efficiency. Slope works contractors with sufficient level of machinery and working capital, are therefore preferred by the clients.

3. Relationship with stakeholders

In general, the existing slope works contractors have already established business relationship with various stakeholders, including the engineering consultants, main contractors, subcontractors and raw-materials suppliers. In addition, the majority of slope works projects are public works, therefore having an in-depth understanding of the work requirements from the Government is invaluable to the market. Companies that possess established profile are exposed to more opportunities. On the other hand, some of the slope works contractors are capable of providing design-and-build services, such as advisory of engineering design, allocation of resources and final project execution, as well as employment of external engineering consultants.

ENTRY BARRIERS

1. Licensing requirement

Licensing requirement is considered to be one of the key entry barriers for the slope works market in Hong Kong. In order to be eligible for tendering public slope works directly from the Government, contractors are required to register on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls”, which sets forth certain criterion in the area of financial, technical and management. For subcontractors engaged in public slope works projects commissioned by certain Government departments and statutory bodies, they are required to be registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) at the Construction Industry Council and certain main contractors may require their subcontractors to be registered as Approved Specialist Contractor. For undertaking slope work projects from private sectors, contractors are also required to be registered on the list of “Register of Specialist Contractors (sub-register of site formation works category)” from Buildings Department which requires highly experienced slope works professional to be part of the management team. As a result, new entrants who are unable to meet such criteria will not be able to compete for slope works projects. Public slope works projects in Hong Kong are generally awarded to certain sizeable construction contractors. According to the Development Bureau, there are 41 approved specialist contractors who are eligible to tender for public works of landslip preventive/remedial works to slopes/retaining walls. According to the Buildings Department, there are 204 contractors registered on the list of “Register of Specialist Contractors” under the sub-register of site formation works category in the Buildings Department of Hong Kong.

2. Capital requirement

Moreover, sufficient initial capital is important for slope works contractors to satisfy their operational needs and licensing requirements. Failure to make timely payments for procurement of raw materials, labour cost and acquisition of construction machinery for slope works such as drilling machines, excavators, air-compressors, concrete pumps,

INDUSTRY OVERVIEW

generator may delay project schedule. On the other hand, contractors are required to have sufficient capital reserve during the early stage of construction works as the payment is generally divided into several settlements and being paid with respect to the progress of works. In particular, slope works contractors are generally required by new customers with whom they have limited past business relationship, to take out performance bonds. The performance bond requirement is generally adopted by contractors to safeguard the performance and service quality of their new subcontractors. In addition, the admission and retention on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls” are subject to certain financial criteria, which primarily include (i) having a minimum employed capital of HK\$13,900,000; and (ii) having a minimum working capital of either (a) HK\$13,900,000 if there are no outstanding contracts or (b) the higher of HK\$13,900,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the Government and non-Government sectors. Such substantial amount of capital requirements presents a barrier for the new entrants to the slope works industry in Hong Kong.

3. Proven track record and project experience

Proven track record and technical expertise is the key entry barrier in the slope works industry. Other than project fee and business relationship, credible track record for (i) quality of works, (ii) remarkable projects, (iii) design and (iv) build capability, is the critical metrics for the companies. On the other hand, proven track record is required for advancement of registered contractors to higher level of work group with eligibility of tendering for slope works projects of higher contract value. New entrants without sound reputation and experience in the provision of slope works would compromise a company’s overall competitiveness in the market.

POTENTIAL CHALLENGES

Slope works contractors are undergoing the following potential challenges in Hong Kong:

1. Shortage of skillful workers

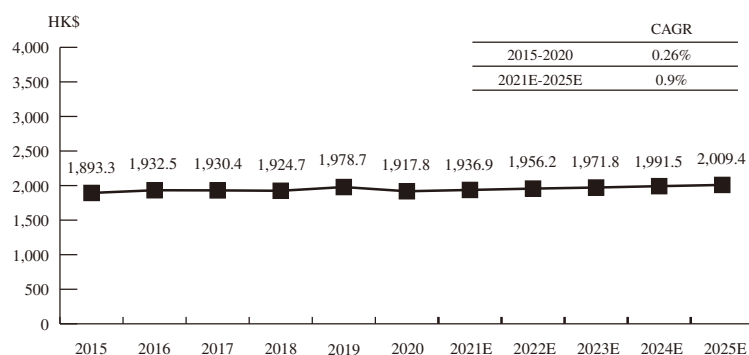
The Hong Kong construction industry has in general been facing the problem of labour shortage and aging workforce. According to the statistics of the Construction Industry Council, as at 31 January 2021, out of 551,000 registered construction workers, about 43.6% are aged over 50 whereas only about 14.0% are aged below 30. According to Construction Industry Council, there is a projected range for approximately 5,000 to 10,000 of skilled construction workers shortage each year from 2019 to 2023 Besides, attributable to the long working hours and challenging working conditions in construction sites, market participants may find it difficult to attract younger generation to participate in the industry. Therefore, the lack of new entrance of competent workers and inadequate supply of labour force may result in project delays and pose as a potential market threat in the Hong Kong slope works market.

INDUSTRY OVERVIEW

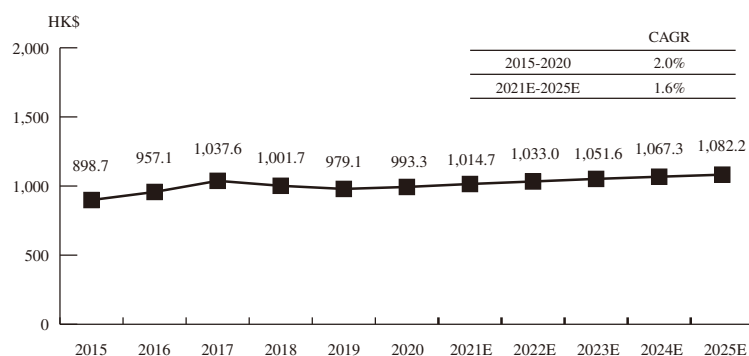
2. Rising labour cost

The slope works market in Hong Kong is generally considered as labour-intensive and it has seen an increasing demand for construction workers. According to the Census and Statistics Department of Hong Kong, the average wages of construction workers have increased at a CAGR of 2.0% from approximately HK\$898.7 per day in 2015 to approximately HK\$993.3 per day in 2020. Going forward, the average wages of concreter and general workers are expected to reach HK\$2,009.4 per day and HK\$1,082.2 per day in 2025, representing a CAGR of approximately 0.9% and 1.6%, respectively during 2021 to 2025. It is expected that the insufficient supply of particular trade workers will further heighten the labour costs in the slope works market. Moreover, in order to attract and retain high-calibre workers, contractors are required to pay a higher salary which may further impose as a financial burden to existing market participants. As a result, the escalating labour wages may entail an increase in operation costs and affect the business performance of contractors.

Average daily wages of concreter (Hong Kong), 2015-2025E



Average daily wages of general workers (Hong Kong), 2015-2025E



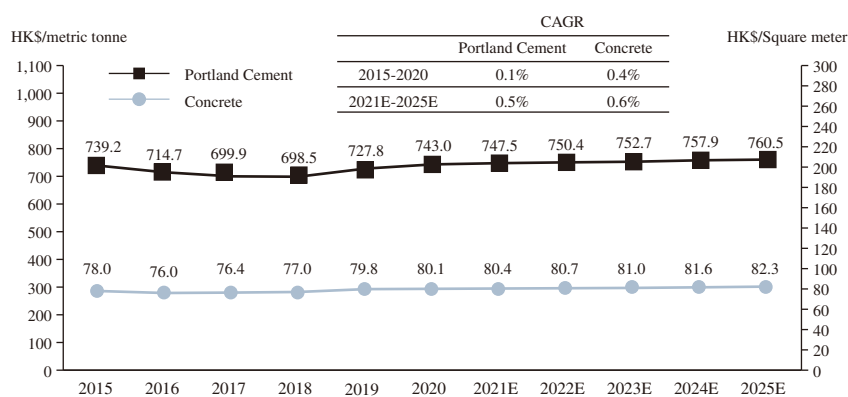
Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

INDUSTRY OVERVIEW

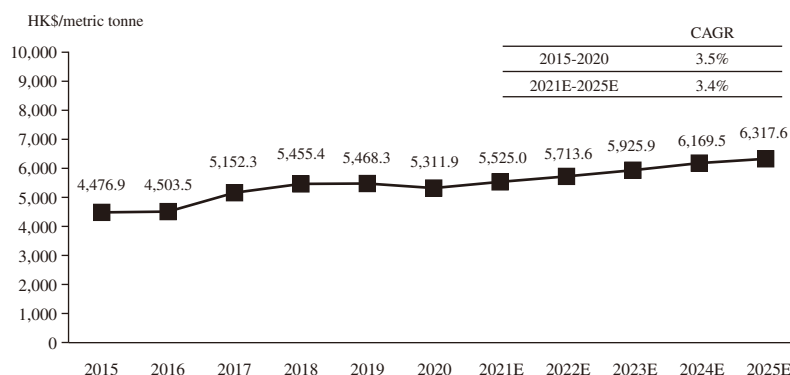
3. Fluctuating cost of materials in Hong Kong

Portland cement, concrete and steel reinforcements are the common construction materials used when carrying out slope works in Hong Kong. During 2015 to 2020, the average price of steel reinforcements has increased from approximately HK\$4,476.9 per metric tonne to approximately HK\$5,311.9 per metric tonne. On the other hand, the average price of Portland cement remains broadly constant, where it increased slightly from approximately HK\$739.2 per metric tonne to approximately HK\$743.0 per metric tonne between 2015 and 2020 primarily due to the stable demand for slope works and other construction works. However, the average price of concrete has increased from HK\$78.0 per square meter in 2015 to HK\$80.1 square meter in 2020, representing a CAGR of 0.4% from 2015 to 2020. Going forward, the average price of Portland cement and concrete are expected to reach HK\$760.5 per metric tonne and HK\$82.3 per square meter in 2025, representing a CAGR of approximately 0.5% and 0.6% respectively during 2021 to 2025. The average price of steel reinforcements is expected to spike HK\$6,317.6 per metric tonne in 2025, representing a CAGR of approximately 3.4% during 2021 to 2025. Such increase is driven by the rising import price from PRC, where the government campaign to limit the production of some heavy industries such as concrete manufacturing, to reduce air pollution.

Average price of portland cement and concrete (Hong Kong), 2015-2025E



Average price of steel reinforcements (Hong Kong), 2015-2025E



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

INDUSTRY OVERVIEW

Note:

- (i) Average price of steel reinforcements includes both mild steel and high tensile steel.
- (ii) Latest available figures recorded in third quarter of 2020.

DIRECTORS' CONFIRMATION

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information therein.

REGULATORY OVERVIEW

This section provides a summary of the material regulations directly relevant to our current and future businesses and how these regulations will affect our business operations and future developments. As this is a summary, it does not contain a detailed analysis of the regulations which are relevant to our business and operations.

LABOUR, HEALTH AND SAFETY

As we undertook slope works during the Track Record Period, we are subject to the laws and regulations in relation to construction works, labour, health and safety.

Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)

Construction Workers Registration Ordinance requires construction workers to be registered for carrying out construction work on a construction site.

Under the Construction Workers Registration Ordinance, “construction work” means, among other things, any building operation involved in preparing for any operation such as the addition, renewal, alteration, repair, dismantling or demolition of any specified structure that involves the structure of the specified structure or any other specified structure. “Construction site” means, subject to certain exceptions, a place where construction work is, or is to be, carried out. Under section 40 of the Construction Workers Registration Ordinance, no person shall be registered as a registered construction worker unless the Registrar of Construction Workers is satisfied, among other things, that the person has attended the relevant construction work-related safety training course. Further, under section 44 of the Construction Workers Registration Ordinance, the Registrar of Construction Workers shall not renew the registration of a person unless the Registrar of Construction Workers is satisfied that, among other things, (i) the person has attended the relevant construction work-related safety training course; and (ii) if the registration will, on the date of expiry, have been in effect for not less than two years, the person has attended and completed, during the period of one year immediately before the date of application for renewal of the registration, such development courses applicable to his registration as the Construction Industry Council may specify.

The Construction Workers Registration Ordinance also contains a “designated workers for designated skills” provision, which provides that only registered skilled or semi-skilled workers of designated trade divisions are permitted to carry out construction works on construction sites relating to those trade divisions independently.

Unregistered skilled or semi-skilled workers are only allowed to carry out construction works of designated trade divisions (i) under the instruction and supervision of registered skilled or semi-skilled workers of relevant designated trade division(s); (ii) in proposed emergency works (i.e. construction works which are made or maintained consequential upon the occurrence of emergency incidents); or (iii) in small-scale construction works (e.g. value of works not exceeding HK\$100,000).

Stage 1 of the “designated workers for designated skills” provision, of which “designated works” will include construction, re-construction, addition, alternation and building services works, has been implemented with immediate effect from 1 April 2017.

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Upon implementation of stage 1 of the “designated workers for designated skills” provision pursuant to the Construction Workers Registration Ordinance, registered skilled and semi-skilled workers for designated trade divisions shall be included as registered construction workers of the Register of Construction Workers, and accordingly, subcontractors of construction sites are required to employ only registered skilled and semi-skilled workers for designated trade divisions to carry out construction works on construction sites in relation to those trade divisions independently.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in the industrial undertakings. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor of an industrial undertaking, including factories, construction work, catering establishments, cargo and container handling undertakings, repair workshops and other industrial workplaces, to ensure, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instructions, training and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy working environment.

A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for six months.

Section 6BA(5) of the Factories and Industrial Undertakings Ordinance also provides that since 1 May 2001 every proprietor shall not employ at the undertaking a relevant person who has not been issued a relevant safety training certificate or whose relevant certificate has expired. A proprietor who contravenes this section commits an offence and is liable to a fine of HK\$50,000.

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Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), include (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the construction, maintenance and operation of hoists; (iii) the duty to ensure safety of places of work; (iv) prevention of falls; (v) safety of excavations; (vi) the duty to comply with miscellaneous safety requirements; and (vii) provision of first aid facilities. Non-compliance with any of these rules constitutes an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to a fine up to HK\$200,000 and imprisonment up to 12 months.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must, as far as reasonably practicable, ensure the safety and health in their workplaces by attending to the following:

- providing and maintaining plant and systems of work that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- as regards any workplace under the employer’s control:
 - provision and maintenance of the workplace in a condition that is safe and without risks to health; and
 - provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- providing and maintaining a working environment for the employees that is safe and without risks to health.

An employer who fails to comply with any of the above provisions intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months.

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The Commission for Labour may also issue an improvement notice against non-compliance of the Occupational Safety and Health Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury to the employees. Failure to comply with an improvement notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and imprisonment of up to 12 months and failure to comply with a suspension notice without reasonable excuse constitutes an offence punishable by a fine of HK\$500,000 and imprisonment of up to 12 months, and to a further fine of HK\$50,000 for each day or part of a day during which the employer knowingly and intentionally continues the non-compliance or contravention.

We have set up an occupational health and safety management system to promote safe working practice among all employees and to prevent the occurrence of accidents through safety inspections. For details, please refer to the paragraph headed “Business – Occupational health and work safety” in this listing document.

Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees’ Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and sets out the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees’ Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

According to section 15 of the Employees’ Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within 7 days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation. If the happening of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of 7 or 14 days (as the case may be) then such notice shall be given not later than 7 days or, as may be appropriate, 14 days after the happening of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

Pursuant to section 24 of the Employees’ Compensation Ordinance, a principal contractor shall be liable to pay compensation to subcontractors’ employees who are injured in the course of their employment to the subcontractor. The principal contractor is, nonetheless, entitled to be indemnified by the subcontractor who would have been liable to pay compensation to the injured employee. The employees employed by the subcontractors in question are required to serve a notice in writing on the principal contractor before making any claim or application against such principal contractor.

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According to section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Section 40(1B) of the Employees' Compensation Ordinance provides that where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under section 40(1B) of the Employees' Compensation Ordinance, the principal contractor and a subcontractor insured under the policy shall be regarded as having complied with section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine of HK\$100,000 and to imprisonment for two years; and on summary conviction to a fine of HK\$100,000 and to imprisonment for one year.

For our insurance coverage in this connection, please refer to the paragraph headed "Business – Insurance" in this listing document. For the information of employees' compensation claims and common law personal injury claims experienced by our Group during the Track Record Period and up to the Latest Practicable Date, please refer to the paragraph headed "Business – Litigations and claims" in this listing document.

Limitation Ordinance (Chapter 347 of the Laws of Hong Kong)

Under the Limitation Ordinance, the time limit for an applicant to commence common law claims for personal injuries is three years from the date on which the cause of action accrued.

For information regarding the potential common law claims for personal injuries which were within the three year period and which might be brought against our Group as at the Latest Practicable Date, please refer to the paragraph headed "Business – Litigations and claims" of this listing document.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

A principal contractor shall be subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. According to section 43C of the Employment Ordinance, a principal contractor or a principal contractor and every superior subcontractor jointly and severally is/are liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance. The liability of a principal contractor and superior subcontractor(s) (where applicable) shall be limited to:

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- a) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and
- b) the wages due to such an employee for two months without any deductions (such months shall be the first two months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from subcontractor must serve a notice in writing on the principal contractor within 60 days (or such other additional period not exceeding 90 days as the Commissioner for Labour may permit) after the date on which the wages become due. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the principal contractor.

Upon receipt of such notice from the relevant employee, a principal contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware.

A principal contractor who without reasonable excuse fails to serve notice on the superior subcontractor(s) shall be guilty of an offence and shall be liable on conviction to a fine of HK\$50,000.

Pursuant to section 43F of the Employment Ordinance, if a principal contractor or superior subcontractor pays to an employee any wages under section 43C of the Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the principal contractor or superior subcontractor, as the case may be. The principal contractor or superior subcontractor who pays an employee any wages under section 43C of the Employment Ordinance may either (1) claim contribution from every superior subcontractor to the employee's employer or from the principal contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of set-off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has subcontracted.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

Immigration Ordinance (Chapter 115 of the Laws of Hong Kong)

According to section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site; or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site; or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.

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During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

Employers are required to enrol their employees (except for certain exempt persons) who are at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund (“MPF”) scheme within the first 60 days of employment.

For both employees and employers, it is mandatory to make regular contributions into a MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK\$25,000 and HK\$7,100 per month respectively before 1 June 2014 or HK\$30,000 and HK\$7,100 per month respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK\$1,250 before 1 June 2014 or HK\$1,500 on or after 1 June 2014. Employer will also be required to contribute an amount equivalent to 5% of an employee’s relevant income to the MPF scheme, subject only to the maximum level of income (HK\$25,000 per month before 1 June 2014 or HK\$30,000 per month on or after 1 June 2014).

Industry schemes

Industry Schemes were established under the MPF system for employers in the construction and catering industries in view of the high labour mobility in these two industries, and the fact that most employees in these industries are “casual employees” whose employment is on a day-to-day basis or for a fixed period of less than 60 days.

For the purpose of the Industry Schemes, the construction industry covers the following eight major categories:

- a) foundation and associated works;
- b) civil engineering and associated works;
- c) demolition and structural alteration works;
- d) refurbishment and maintenance works;
- e) general building construction works;
- f) fire services, mechanical, electrical and associated works;
- g) gas, plumbing, drainage and associated works; and
- h) interior fitting-out works.

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The Mandatory Provident Fund Schemes Ordinance does not stipulate that employers in these two industries must join the Industry Schemes. The Industry Schemes provide convenience to the employers and employees in the construction and catering industries. Casual employees do not have to switch schemes when they change jobs within the same industry, so long as their previous and new employers are registered with the same Industry Scheme. This is convenient for scheme members and saves administrative costs.

As our slope works projects involve the employment of casual employees, the Industry Schemes are applicable to our business and practice.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the relevant laws and regulations.

ENVIRONMENTAL PROTECTION

We are also subject to the laws and regulations in connection with environmental protection as our slope works projects involve operation of machinery.

Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

We have established an environmental management system in conformance with ISO 14001:2015 international standard to comply with the regulation in relation to air pollution control. For details, please refer to the paragraph headed “Business – Environmental compliance” in this listing document.

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Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)

Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (the “**NRMM Regulation**”) provides for the control of emission from non-road mobile machinery.

According to the NRMM Regulation, non-road mobile machinery, unless approved or exempted, are required to comply with the prescribed emission standards. All regulated machines sold or leased for use in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department. Starting from 1 December 2015, only approved or exempted non-road mobile machinery with a proper label are allowed to be used in specified activities and locations including construction sites. The Environmental Protection Department may on application, approve a regulated machine if it is satisfied that the emission from the machine conforms to the prescribed emission standard.

In addition, the Environmental Protection Department may, on application, exempt a regulated machine or non-road vehicle from the application of section 4(1), 5(1) or 6(1) of the NRMM Regulation if it is satisfied that the machine or vehicle was in Hong Kong at any time on or before 30 November 2015.

According to the NRMM Regulation, unless the machine is approved, a person who uses or causes to be used a regulated machine in a specified activity commits an offence and is liable on conviction to a fine of up to HK\$200,000.00 and to imprisonment for six months. Any person who uses or causes to be used in a specified activity a regulated machine that is approved or exempted without ensuring that the label complies with the requirements specified in Schedule 2 of the NRMM Regulation and is painted or affixed on the machine and properly maintained in accordance with the requirements specified in Schedule 2 of the NRMM Regulation or without ensuring that the information set out in the label conforms with the information provided to the authority in support of the application for the approval or exemption of the machine commits an offence and is liable on conviction to a fine of up to HK\$50,000 and to imprisonment for three months.

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On 8 February 2015, the Development Bureau issued a Technical Circular (Works) No. 1/2015 in relation to the implementation plan to phase out the use of exempted non-road mobile machineries for four types of non-road mobile machineries, namely generators, air compressors, excavators and crawler cranes in new capital works contracts of public work including design and build contracts, with an estimated contract value exceeding HK\$200 million as follows:

	Phase 1 Tenders to be invited from 1 June 2015 to 31 May 2017	Phase 2 Tenders to be invited from 1 June 2017 to 31 May 2019	Phase 3 Tenders to be invited from 1 June 2019 onwards
Generators		No exempted NRMM is allowed	
Air Compressors		No exempted NRMM is allowed	
Excavators	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed
Crawler Cranes	Exempted NRMM shall not exceed 50% of all units on site	Exempted NRMM shall not exceed 20% of all units on site	No exempted NRMM is allowed

Note: Notwithstanding the above, exempted NRMM may still be permitted at the discretion of the Architect/Engineer if there is no feasible alternative.

As at the Latest Practicable Date, our Group owned eight Regulated Machines (mainly including air compressor and generator), which were approved by the Environmental Protection Department under the NRMM Regulation, and did not own any machinery that had not been approved by the Environmental Protection Department under the NRMM Regulations.

Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)

The Noise Control Ordinance provides statutory controls, among others, to restrict and reduce the nuisance caused by environmental noise from construction, industrial and commercial activities.

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A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays (including Sunday), unless prior approval has been granted by the director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. For instance, hand-held percussive breakers must comply with noise emissions standards and be issued with a noise emission label from the director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on second or subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

We have established an environmental management system in conformance with ISO 14001:2015 international standard to comply with the regulation in relation to noise control. For details, please refer to the paragraph headed “Business – Environmental compliance” in this listing document.

CONTRACTOR LICENSING REGIME AND OPERATION

Contractor Licensing Regime

Under the current contractors registration system in Hong Kong, the Building Authority keeps (a) a register of general building contractors who are qualified to perform the duties of a general building contractor; (b) a register of specialist contractors who are qualified to carry out specialised works (such as demolition works, foundation works, ground investigation works, site formation works and ventilation works) specified in the category in the sub-register in which they are entered; and (c) a register or provisional register of minor works contractors who are qualified to carry out minor works (such as alteration and addition works, repair works, etc.) belonging to the class, type and item specified in the register in which they are registered.

Subcontractors, including foundation and substructure construction subcontractors, in Hong Kong may apply for registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) managed by the Construction Industry Council.

With effect from 1 April 2019, the Subcontractor Registration Scheme has been renamed as the Registered Specialist Trade Contractors Scheme. All subcontractors who are registered under the seven trades namely demolition, concreting formwork, reinforcement bar fixing, concreting, scaffolding, curtain wall and erection of concrete precast component of

REGULATORY OVERVIEW

the Subcontractor Registration Scheme have automatically become Registered Specialist Trade Contractors under the Registered Specialist Trade Contractors Scheme, whilst all subcontractors who are registered under the remaining trades of the Subcontractor Registration Scheme have been retained as Registered Subcontractors under the Registered Specialist Trade Contractors Scheme, and no application is required. With effect from 1 January 2021, plastering trade was upgraded as the eighth designated trade. All registered subcontractors who are registered under the plastering trade have automatically become Registered Specialist Trade Contractors under the plastering trade and no application is required.

Registered Specialist Trade Contractors within each designated trade are further divided into Group 1 (“**Group 1**”) and Group 2 (“**Group 2**”) subject to different admission criteria and tender limits. No tender limits are imposed on tenders to be invited for Group 2 whereas the tender limits for tenders to be invited for Group 1 vary among the different designated trade categories for Group 1. The tender limit for the designated trade of concreting, concreting formwork and reinforcement bar fixing set out as follows have been imposed on subcontracts for public works since 1 October 2020:

- (i) Concreting – contracts/subcontracts value up to HK\$5 million;
- (ii) Concreting formwork – contracts/subcontracts value up to HK\$40 million; and
- (iii) Reinforcement bar fixing – contracts/subcontracts value up to HK\$20 million.

Under section 8B(2) of the Buildings Ordinance, an applicant for registration as a Registered General Building Contractor or Registered Specialist Contractor must satisfy the Building Authority on the following aspects:

- a) if it is a corporation, the adequacy of its management structure;
- b) the appropriate experience and qualifications of its personnel;
- c) his/her ability to have access to plants and resources; and
- d) the ability of the person appointed to act for the applicant for the purposes of the Buildings Ordinance to understand building works and street works through relevant experience and a general knowledge of the basic statutory requirements.

In considering each application, the Building Authority is to have regard to the qualifications, competence and experience of the following key personnel of the applicant:

- a) a minimum of one person appointed by the applicant to act for the applicant for the purposes of the Buildings Ordinance, hereinafter referred to as an “Authorised Signatory”;

REGULATORY OVERVIEW

- b) for a corporation – a minimum of one director from the board of directors of the applicant, hereinafter referred to as a “Technical Director” who is authorised by the board to:
 - i) have access to plant and resources;
 - ii) provide technical and financial support for the execution of building works and street works; and
 - iii) make decisions for the company and supervise the Authorised Signatory and other personnel;for the purpose of ensuring that the works are carried out in accordance with the Buildings Ordinance; and
- c) for a corporation which appoints a director who does not possess the required qualification or experience as Technical Director to manage the carrying out of building works and street works – an “Other Officer” authorised by the board of directors to assist the Technical Director.

Our operating subsidiary, A-City Workshop, has been registered with the Buildings Department as a Registered Specialist Contractor under the category “site formation works” since 8 June 2017 and a Registered General Building Contractor since 15 May 2017. A-City Workshop has also been registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme) since February 2013.

Our executive Director, Mr. Ho is appointed as the Authorised Signatory and the Technical Director to act for the purpose of the Buildings Ordinance for A-City Workshop. For details of the biography of Mr. Ho, please refer to the paragraph headed “Directors and senior management – Directors – Executive Directors” in this listing document.

In addition to the above key personnel, the applicant is also required to demonstrate that it has employed appropriate qualified staff members to assist the applicant and the above key personnel to execute, manage and supervise the building works and street works. For registration as a Registered Specialist Contractor, the applicant must satisfy the Buildings Department that it has the necessary experience and, where appropriate, professional and academic qualifications, to undertake work in the specialist category and should also demonstrate that it has the access to engaging qualified persons to carry out the relevant specialised duties.

The Buildings Department imposes specific requirements on the directors of a contractor and the person appointed by the contractor to act for it for the purposes of the Buildings Ordinance.

Private sector slope works projects in Hong Kong

Private sector slope works are projects launched by private developers as well as any other entities not being Government departments and statutory bodies.

REGULATORY OVERVIEW

Pursuant to section 9 of the Buildings Ordinance, a contractor who carries out private sector slope works is required to register with the Building Authority as a Registered Specialist Contractor under the sub-register of “site formation works” category, or appoint a Registered Specialist Contractor under the relevant category to carry out the specialised works for him.

A Registered Specialist Contractor appointed to carry out specialised works is required to, among others, provide continuous supervision to the carrying out of the works in accordance with his supervision plan and to notify the Building Authority of any contravention of the regulations that would result from carrying out the works shown in the plan approved by the Building Authority for the works, in accordance with section 9 of the Buildings Ordinance.

The requirements mentioned above are the basic requirements for undertaking private sector slope works projects. Other additional requirements on the main contractors or subcontractors may be imposed by the developers, main contractors, or other entities, as the case may be.

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, revenue attributable to private sector amounted to approximately 4.7%, 18.5%, 13.1% and 10.1% of our total revenue, respectively. During the Track Record Period, we had undertaken three private sector projects as main contractor in the role of Registered Specialist Contractor under the category of “site formation works” For further information, please refer to the paragraph headed “Business – Projects undertaken during the Track Record Period” in this listing document.

Public sector slope works projects in Hong Kong

For public sector projects, contractors responsible for landslip prevention and mitigation and/or land piling works are, among others, required to be listed under List of Approved Specialist Contractors for Public Works maintained by the WBDB, and with the Buildings Department as Registered Specialist Contractors under the sub-register category of “site formation works”. For details of the List of Approval Specialist Contractors for Public Works, please refer to the paragraph headed “Requirement for the application of registration as a probationary contractor on the List of Approved Specialist Contractors for Public Works” below in this section.

Generally speaking, as long as the principal contractor holds all the required registrations for the project, the subcontractors are not required to hold the same registrations as the main contractors in public projects. However, being registered on the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) at the Construction Industry Council is required for subcontractors to participate in public projects commissioned by certain Government departments and statutory bodies, including the Airport Authority, Development Bureau and the Housing Authority.

REGULATORY OVERVIEW

Pursuant to a technical circular issued by the WBDB (the Environment, Transport and Works Bureau at the time of issue of the technical circular) on 14 June 2004, all capital works and maintenance works contracts of the Government with tenders to be invited on or after 15 August 2004 shall require the contractor to employ all subcontractors (whether nominated, specialist or domestic) that are registered from the respective trades available under the Primary Register of the Voluntary Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme) introduced by the Provisional Construction Industry Co-ordination Board whose work was taken over by the Construction Industry Council in February 2007.

Requirement for the application of registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works

Pursuant to the Contractor Management Handbook revised and published by the Development Bureau in January 2021, the admission and retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria.

A contractor's status in a particular group will be either probationary or confirmed. Probationary Contractors are limited in the number and value of contracts for which they are eligible to tender and to be awarded.

In order to apply for the registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to slopes/retaining walls" ("LPM"), the applicant has to meet, among others, the following financial criteria and submit certain financial information for the assessment:–

- The applicant should generally possess at least a positive capital value;
- The applicant is required to maintain minimum employed capital of HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021) and minimum working capital of HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021);
- If the applicant has outstanding contracts in hand, its working capital for retention purpose should amount to 10% of the combined annual value of uncompleted works on outstanding contracts or the minimum working capital specified above, whichever is higher (if the applicant has both employed and working capital not less than HK\$5.8 million (HK\$4.2 million prior to 1 March 2021) respectively).

Further, the applicant has to meet the minimum technical and management criteria regarding the following areas in order to enter on probation:

- Job experience
- Registration with relevant authorities in Hong Kong including registration with the Buildings Department as a Registered Specialist Contractor under the sub-register category of "site formation works"

REGULATORY OVERVIEW

- Top management
- Professional staff
- Technical staff
- Safety staff
- Plant and equipment
- Office/workshop facilities
- Training facilities
- Others

Contractors included in the List of Approved Specialist Contractors for Public Works under the category of LPM but have not yet achieved confirmation status (i.e. a probationary contractor) may take on not more than two Government contracts tendered under the category of LPM with total outstanding value of works of not greater than HK\$184 million (HK\$114 million prior to 1 March 2021).

In June 2020, we were registered as Probationary Contractor on the List of Approved Specialist Contractor for Public Works maintained by the WBDB under the category of LPM. As advised by the Legal Counsel, we are not required to register at the Group level as Probationary Contractor on the List of Approved Specialist Contractor for Public Works.

Retention on the List of Approved Specialist Contractors for Public Works is not subject to regular renewal. However, if doubts arise about the ability of a contractor to meet the minimum standards generally or for a particular class of works, it may not be allowed to tender for any new work until it can demonstrate that it can meet the required standard. The Secretary for Development of the Government reserves the right to remove any contractor from the List of Approved Specialist Contractors for Public Works or take other regulatory actions against a contractor, as further discussed in the paragraph headed “Regulatory actions against contractors by the Development Bureau” below in this section.

Regulatory actions under the Buildings Ordinance

Under sections 7, 13 and 40 of the Buildings Ordinance, a Registered Specialist Contractor will be subject to prosecution or disciplinary action where an offence is committed or when matters justifying the taking of disciplinary action arise, as discussed in the following paragraphs.

REGULATORY OVERVIEW

Disciplinary proceedings

Pursuant to sections 7 and 13 of the Buildings Ordinance, the matters justifying the taking of disciplinary action include, amongst others, being convicted by any court of an offence related to carrying out his professional duties, being negligent or having misconducted himself in a professional way, having permitted a material deviation from a supervision plan for which he is responsible without reasonable cause and having drawn up a supervision plan that does not comply with the material requirements of the Buildings Ordinance, etc.

The disciplinary board may, amongst others, order that the name of such person or the name of the director, officer or person (in the case of a Registered Specialist Contractor) be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; or order such person or the director, officer or person (in the case of a Registered Specialist Contractor) be fined.

Prosecution

In addition to disciplinary proceedings, a Registered Specialist Contractor will, pursuant to section 40 of the Buildings Ordinance, be subject to prosecution where an offence is committed. Set out below are some of the offences under section 40 of the Buildings Ordinance.

Pursuant to section 40(2A) of the Buildings Ordinance, a Registered Specialist Contractor directly concerned with any prescribed inspection or building works or street works shall not:

- a) permit or authorise to be incorporated in or used in the carrying out of any such inspection or works any materials which are defective or do not comply with the provisions of the Buildings Ordinance; or any materials which have not been mixed, prepared, applied, used, erected, constructed, placed or fixed in the manner required for such materials under the Buildings Ordinance;
- b) diverge or deviate in any material way from any work shown in a plan approved by the Building Authority under the Buildings Ordinance;
- c) diverge or deviate in any material way from any works shown in a plan relating to minor works that is required to be submitted to the Building Authority under the simplified requirements; or
- d) knowingly misrepresent a material fact in any plan, certificate, form, report, notice or other document given to the Building Authority under the Buildings Ordinance.

REGULATORY OVERVIEW

Failure to comply with any of the above provisions constitutes an offence and offenders are liable on conviction (a) in the case of a prescribed inspection (other than a prescribed inspection in respect of a window in a building) or building works (other than minor works) or street works, to a fine of HK\$1,000,000 and to imprisonment for three years; or (b) in the case of a prescribed inspection in respect of a window in a building or minor works, to a fine of HK\$500,000 and to imprisonment for 18 months.

In addition, any Registered Specialist Contractor who fails to notify the Building Authority of any contravention of the regulations which would result from the carrying out of any work shown in any plan approved by the Building Authority, contravenes sections 9(5)(b), 9(6)(b) or 4(3)(b) of the Buildings Ordinance and shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000. However, it shall be a defence in any prosecution for such a contravention for the person charged to prove to the satisfaction of the court that he did not know, nor could reasonably have discovered, the contravention referred to in the charge.

Under section 40(2E) of the Buildings Ordinance, where a Registered Specialist Contractor certifies or carries out minor works belonging to a class, type or item for which he is not registered, he shall be guilty of an offence and is liable on conviction to a fine at level 6 and to imprisonment for six months, and to a fine of HK\$5,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Under section 40(2D) of the Buildings Ordinance, any person who knowingly misrepresents a material fact in any report submitted to the Building Authority under section 27C(2)(c) of the Buildings Ordinance shall be guilty of an offence and shall be liable on conviction to a fine of HK\$250,000 and to imprisonment for three years.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, neither our Group nor any of our Directors had been subject to any regulatory actions, disciplinary proceedings or prosecutions under the Buildings Ordinance.

Regulatory actions against contractors by the Development Bureau

The Development Bureau may take regulatory actions against contractors in circumstances including failure to submit accounts or meet the financial criteria within prescribed time, unsatisfactory performance, failure to submit a valid competitive tender for a period of three years, failure to answer queries or provide information relevant to the listing status of a contractor on the List of Approved Specialist Contractors for Public Works within the prescribed time, misconduct or suspected misconduct, winding-up, bankruptcy or other financial problems, poor site safety record, failure or refusal to implement an accepted tender, poor environmental performance and court convictions, such as contravention of site safety legislation and the Employment Ordinance and employment of illegal workers. However, before deciding on such action, a contractor will be given adequate warning of the action proposed and advised of the reasons for it and given the opportunity to present its views of the matter.

REGULATORY OVERVIEW

For instance, if a qualified contractor is convicted of a series of safety or environmental offences within a short period of time in a project, or if a fatal construction accident occurs at a construction site for which the contractor is responsible, the Government may take regulatory actions against the responsible contractor, which include the removal, suspension (which means a contractor is prohibited from tendering for works of the relevant category during the suspension period) and downgrading (which includes downgrading or demoting the contractor's qualification to a lower status or class in all or any specified category) of the contractor's licence, depending on the seriousness of the incident triggering the regulatory actions. Any contractor convicted of three or more offences under the Employment Ordinance in respect of separate incidents in a rolling 12-month period shall be compulsorily and automatically suspended from tendering for public works for six months.

Our Directors have confirmed that our Group had not been subject to any regulatory action taken by the Development Bureau during the Track Record Period and up to the Latest Practicable Date.

Security of Payment Legislation for the Construction Industry

The Development Bureau launched the 3-month public consultation on 1 June 2015 for the proposed Security of Payment Legislation for the construction industry that aims to improve payment terms and payment delays, encourage rapid dispute resolution and increase cash flow of operators in the construction industry to the Legislative Council.

Under the proposed Security of Payment Legislation, contract parties have (i) the right to progress payments; (ii) the right to adjudication; and (iii) the right to suspend works for non-payment.

Under the current payment practices along the construction supply chain, many contracts include "pay when paid" or "pay when certified" clauses, where payment is conditional on the payer receiving payment from a third party or payment is contingent or conditional on the operation of another contract or agreement. This often resulted in actual durations taken for certification and settlement of progress payments and final account payments being longer than the due dates specified in contracts. Under the proposed legislation, parties undertaking construction activities or providing related services, materials and plant shall be entitled to claim a progress payment based on the value of their work, services or supply shall be based on any contract price or rates or other pricing agreed by the parties to the extent it can be reasonably applied or otherwise having regard to market rates or prices prevailing in the industry at the time the contract was entered into.

All parties undertaking construction activities or provide related services, materials and plant shall be entitled to claim progress payments (which shall include single, interim and final progress payments). Payment of an amount due must be made within 60 calendar days of an interim progress payment claim being made or within 120 calendar days for a final progress payment claim.

REGULATORY OVERVIEW

The proposed Security of Payment Legislation would also introduce adjudication as a means of resolving disputes relating to non-payment, value of works or extensions of time, allow parties to agree their own adjudicator, and impose a strict timetable upon the contract. The proposed legislation will carry an express provision for enforcement by allowing an adjudicator's decision to be filed directly in court. Parties would be entitled to refer the matter to the court or arbitration if unsatisfied with the decision of the adjudicator.

The proposed legislation would provide parties with the right to suspend all or part of their works or to reduce the rate of progress in the event of non-payment, provided that notice is given to the principal contractor and site owner (if known). Parties whom suspend or slow down work due to non-payment would also have rights to extension of time and costs arising from the delay.

All contracts and sub-contracts, whether in written or oral form, for (i) government works, under which the Government and specified public entities procure construction and maintenance activities or related services, materials or plant; and (ii) private sector works, under which private entities procure construction activities for new buildings (as defined in the Buildings Ordinance) with a main contract value of over HK\$5 million or procure related services, material or plant or supply-only contracts with a contract value of over HK\$500,000, will be governed by the Security of Payment Legislation. Where the main contract is covered by the Security of Payment Legislations, all sub-contracts (irrespective of tier) will be covered by the Security of Payment Legislation regardless of value. The legislation will not apply to private sector construction works relating to new buildings with a main contract value of less than HK\$5 million or related services, material or plant supply-only contracts with a contract value of less than HK\$500,000.

The proposed legislation will not apply retrospectively but will apply only to contracts entered on or after a date to be set by or pursuant to the legislation.

Our Directors are of the view that the proposed Security of Payment Legislation will minimise the risk of non-payment or disputes in the slope works industry. It will provide an effective adjudication framework for us to solve disputes arising from late payment with our customers in a timely and cost-efficient manner, which will reduce the costs and time spent on handling disputes.

On the other hand, our suppliers generally grant us a credit term of 0 to 45 days. We have not adopted any "pay when paid" policy with our suppliers. Therefore, our Directors consider that our payment pattern does not deviate from the requirements stipulated in the Security of Payment Legislation thus, our Directors consider that the Security of Payment Legislation will not have any significant adverse impact on our payment practice, liquidity and cash management.

HISTORY AND CORPORATE STRUCTURE

HISTORY

Establishment and development of our Group

A-City Workshop was incorporated in Hong Kong in August 2012 with Mr. Ho and Ms. Cao Hongmei (“**Ms. Cao**”), being the spouse of Mr. Sieh, as founder members in equal share. Mr. Ho and Mr. Sieh first became acquainted in March 2007 when they met at an engineering seminar. Since then, they had from time to time exchanged their views on the construction industry. In late 2011, Mr. Ho and Mr. Sieh become fellow colleagues at Tai Kam Construction Engineering Company Limited. In mid-2012, Mr. Ho wished to set up a new construction company focusing on slope works (i.e. A-City Workshop). Having considered the background and qualification of Mr. Sieh as well as their acquaintances, Mr. Ho had invited Mr. Sieh to invest in A-City Workshop. Mr. Sieh decided to remain in his employment and not to invest in A-City Workshop at that time having considered the benefits of continuing his employment and prospects of further developing his personal network in the slope work industry. Nevertheless, as a sign of support to Mr. Ho, Mr. Sieh had encouraged Ms. Cao to invest in A-City Workshop on her own and to take up its account, financing and contract administration works. Mr. Ho contributed to the setup of A-City Workshop with wealth accumulated from other businesses, while Ms. Cao contributed to the setup of A-City Workshop with her personal savings. A-City Workshop has been and has remained as a slope works contractor in Hong Kong since its incorporation.

In January 2013, upon the request of his then employer, being an established slope works contractor, Mr. Ho decided to remain in his employment having considered the chance of gaining further working experience and the benefits of continuing his employment. As such, Mr. Ho resigned from his position as director and transferred his shareholding in A-City Workshop to his spouse, namely Ms. Lee Kim Kum (“**Ms. Lee**”), who then took the opportunity to continue developing A-City Workshop. After such transfer, A-City Workshop became wholly-owned by Ms. Cao and Ms. Lee in equal share.

After gaining further working experience and building up certain business connections in the slope works industry, in the preparation of taking up the business of A-City Workshop, Mr. Ho re-joined A-City Workshop as a director in September 2016. In December 2016, each of Mr. Ho and Mr. Sieh considered that it was the appropriate timing for them to develop their own business in slope works and invested in A-City Workshop by acquiring the shareholdings of their respective spouse in A-City Workshop, i.e. 500 shares each, at HK\$1 each. Meanwhile, Mr. Sieh was appointed as director of A-City Workshop.

In view of the stabilised business operation and given that the business has been taken up by their respective spouse whom were entrusted as competent and experienced in the industry, Ms. Cao and Ms. Lee decided to resign from their position in pursuit of their other personal interest in December 2016.

HISTORY AND CORPORATE STRUCTURE

In February 2013, we were registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme) at the Construction Industry Council, which is a prerequisite for a subcontractor to participate in public projects commissioned by certain Government departments and statutory bodies. For further details, please refer to the paragraph headed “Regulatory overview – Contractor licensing regime and operation”.

The registration with the Building Authority as Registered General Building Contractor and Registered Specialist Contractor under the site formation works category in the year of 2017 and the awarding of a project with estimated contract sum over HK\$90.0 million in the same year signified our capability to undertake large-scale slope works projects and provided the basis of establishing our current customer base.

In June 2020, we were registered as Probationary Contractor on the List of Approved Specialist Contractor for Public Works maintained by the WBDB under the category of “Landslip prevention/remedial works to slopes/retaining walls” which is a prerequisite for tendering for public slope works contracts directly from the Government. For further details, please refer to the paragraph headed “Regulatory Overview – Contractor licensing regime and operation”.

The following table summarises the major milestones for the development of our operating subsidiary, A-City Workshop, into the present scale of operations:

August 2012	Established in Hong Kong
February 2013	Registered under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme)
January 2017	Accredited with ISO 9001:2015 Quality Management System Standard
May 2017	Registered with the Building Authority as Registered General Building Contractor
June 2017	Registered with the Building Authority as Registered Specialist Contractor under the site formation works category
November 2017	First awarded a project with estimated contract sum over HK\$90.0 million

HISTORY AND CORPORATE STRUCTURE

June 2018	First awarded a project to act as main contractor in the role of the Registered Specialist Contractor (site formation works) under the Buildings Ordinance
October 2018	Accredited with ISO 14001:2015 Environmental Management System Standard and OHSAS 18001:2007 Occupational Health and Safety Management System Standard
December 2019	The Shares became listed on GEM
June 2020	Registered as Probationary Contractor on the List of Approved Specialist Contractor for Public Works maintained by the WBDB
September 2020	Accredited with ISO 45001:2018 Occupational Health and Safety Management System Standard

Our subsidiaries

Kanic International

Kanic International was incorporated in the BVI on 5 March 2019. Such company is authorised to issue up to a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each, among which 11 shares are in issue and directly wholly-owned by our Company.

Kanic International is an investment holding company and an intermediate holding company of our Group.

A-City Workshop

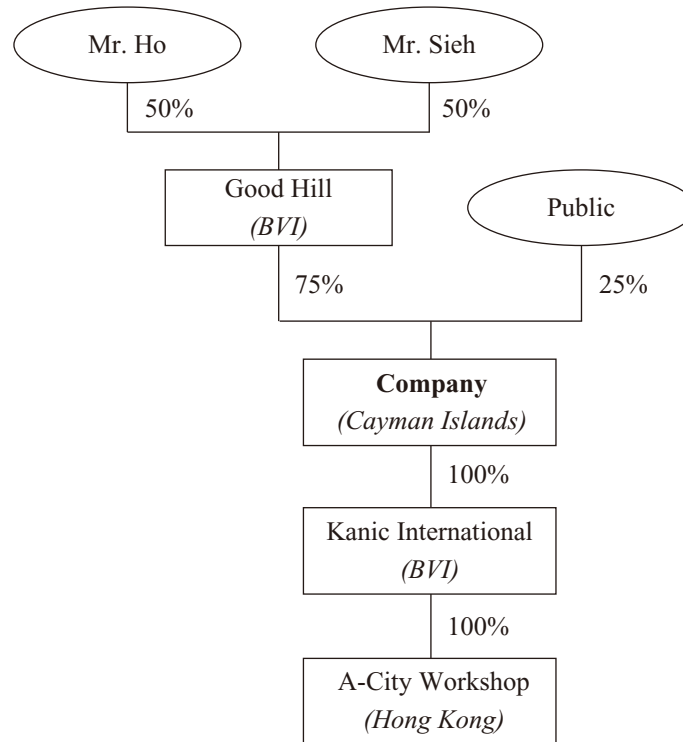
A-City Workshop was incorporated in Hong Kong on 31 August 2012. As at 1 January 2018 (being the commencement date of the Track Record Period), A-City Workshop was held as to 50% by each of Mr. Ho and Mr. Sieh. On 15 March 2019, each of Mr. Ho and Mr. Sieh transferred 500 shares of A-City Workshop, in aggregate representing the entire issued share capital of A-City Workshop, to Kanic International for a consideration of HK\$26,780,000, which was determined based on the net asset value of A-City Workshop as at 31 December 2018. On 8 April 2020, A-City Workshop allotted and issued 8,599,000 shares to Kanic International for an issue price of HK\$1 per share. On 9 April 2021, A-City Workshop allotted and issued 5,300,000 shares to Kanic International for an issue price of HK\$1 per share. Such company has an issued share capital of HK\$13,900,000 divided into 13,900,000 ordinary shares, all of which are indirectly wholly-owned by our Company.

A-City Workshop commenced business in January 2013 and is mainly engaged in the business of slope works in Hong Kong.

HISTORY AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE

The has been and will be no change in the corporate structure of our Group from the GEM Listing to the Transfer of Listing. The following chart sets forth our Group's corporate and shareholding structure after completion of the Transfer of Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme):



BUSINESS

BUSINESS OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. Our Group has been listed on GEM since 13 December 2019. According to the Industry Report, we were ranked as the third largest player (in terms of revenue) in the slope works industry in Hong Kong in 2020, and accounted for approximately 12.0% market share of the slope works industry.

The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls. We are specialised in providing integrated slope works services and are experienced in undertaking different kinds of slope works which mainly comprise (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also provide design-and-build services, such as slope upgrading and slope remedial works.

Since the GEM Listing, we have continued to strengthen our market presence and competitiveness in the slope works industry. In particular, A-City Workshop, our principal operating subsidiary, has successfully registered as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” in June 2020. Our status as a Probationary Contractor has broadened the source of our projects, including:

- *Government contracts which require Approved Specialist Contractor as main contractor:* Being registered as an Approved Specialist Contractor is a prerequisite for tendering slope works contracts directly from the Government. Since we became a Probationary Contractor, our Group has directly tendered for seven public sector projects as main contractor from the Lands Department, the CEDD and the Highways Department. Among the seven tenders submitted, one tender was under tender selection process as at the Latest Practicable Date.
- *Government contracts which require Approved Specialist Contractor as subcontractor:* For some public sector projects, the main contracts have imposed specific requirements that any subcontractor responsible for undertaking the relevant slope works shall be registered on the List of Approved Specialist Contractors for Public Works. Since we became a Probationary Contractor, our Group has tendered for two public sector projects which impose the aforesaid requirements on the subcontractors. Among the two tenders submitted, we were awarded with one project.

BUSINESS

In addition, A-City Workshop is a Registered Specialist Trade Contractor under reinforcement bar fixing (Group 1), concreting formwork (Group 1) and concreting (Group 1) and a Registered Subcontractor in general civil works with specialty of earthwork and geotechnical works of the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. A-City Workshop is also registered with the Building Authority as a Registered General Building Contractor and a Registered Specialist Contractor under the sub-register of “site formation works”.

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. We acted as a subcontractor in most of our projects during the Track Record Period. In respect of public sector projects, our customers were generally main contractors which are engaged by different Government authorities, including the CEDD, the Lands Department, the Water Supplies Department, the Architectural Services Department and the Housing Authority. In respect of private sector projects, our customers were generally main contractors engaged by private property owners. To a lesser extent, we were on occasions engaged directly by private property owners as main contractor. During the Track Record Period, we did not experience any loss-making project.

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects and by reference to our role in the projects:

	FY2018			FY2019			FY2020		
	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue
Public sector									
– As sub-contractor	11	106,045	95.3	12	149,812	81.5	16	239,915	86.9
Private sector									
– As sub-contractor	4	5,000	4.5	6	34,091	18.5	11	34,939	12.7
– As main contractor	1	200	0.2	–	–	–	1	1,152	0.4
Sub-total	<u>5</u>	<u>5,200</u>	<u>4.7</u>	<u>6</u>	<u>34,091</u>	<u>18.5</u>	<u>12</u>	<u>36,091</u>	<u>13.1</u>
Total	<u>16</u>	<u>111,245</u>	<u>100.0</u>	<u>18</u>	<u>183,903</u>	<u>100.0</u>	<u>28</u>	<u>276,006</u>	<u>100.0</u>

BUSINESS

	Six months ended 30 June					
	2020	%		2021	%	
No. of projects	Revenue HK\$'000 (Unaudited)	of total revenue	No. of projects	Revenue HK\$'000	of total revenue	
Public sector						
– As sub-contractor	14	111,225	92.0	17	139,178	89.9
Private sector						
– As sub-contractor	7	9,619	8.0	7	13,692	8.9
– As main contractor	–	–	–	3	1,921	1.2
Sub-total	<u>7</u>	<u>9,619</u>	<u>8.0</u>	<u>10</u>	<u>15,613</u>	<u>10.1</u>
Total	<u>21</u>	<u>120,844</u>	<u>100.0</u>	<u>27</u>	<u>154,791</u>	<u>100.0</u>

As at the Latest Practicable Date, we had 20 projects on hand with an aggregate of approximately HK\$454.7 million yet to be recognised as revenue, among which, approximately HK\$10.8 million and HK\$443.9 million are expected to be recognised as revenue from the Latest Practicable Date to 31 December 2021 and FY2022 onwards, respectively. For further details, please refer to the paragraph headed “Projects on hand” below in this section.

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) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. For further details, please refer to the paragraph headed “Our suppliers” below in this section.

We possess our own direct labour resources for performing slope works. As at the Latest Practicable Date, we had a total of 199 full-time site workers. We generally give priority to deploying our own workers for performing the site works involved in our projects. Depending on the availability of our labour resources and the types of specialised works involved, we may subcontract part of the works involved in sizeable projects to subcontractors, especially when our Group is concurrently occupied with a number of sizeable projects. Further, given slope works projects generally involve multiple types of works, it may sometimes be more cost efficient for us to subcontract certain types of specialised works to our subcontractors, taking into account the volume and the proportion of specialised works generally required in our projects as well as the cost of maintaining our own workers for carrying out such works. During the Track Record Period, we engaged our subcontractors mainly for performing soil nail works, shotcreting works and landscape works.

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We generally procured the materials required for our projects from suppliers based in Hong Kong on our own account. The major types of materials that we purchased included cement and concrete, steel reinforcement and landscape materials. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. Materials are procured by us on a project-by-project basis to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventories during the Track Record Period.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers. As at the Latest Practicable Date, our Group owned certain machinery, including air compressors, crane truck, excavator and generators, for performing slope works. For further details, please refer to the paragraph headed “Machinery and motor vehicles” in this section.

Our revenue represents income derived from undertaking slope works. Our cost of services mainly includes direct labour cost, subcontracting expenses and direct material cost.

According to the Industry Report, the demand for slope works will continue to grow at a CAGR of approximately 4.2% from 2020 to 2025, reaching approximately HK\$2,839.5 million in 2025. Driven by (i) the rising demand for slope works and maintenance studies entailed with large scale public infrastructure projects such as the extension of mass transit railway lines and transform areas in Kwun Tong, Kowloon Bay and Kai Tak and Island South initiative; and (ii) the increase in demand for slope works induced by the increase in number of new man-made slopes and slope safety measures associated with the housing supply target for the 10-year period from 2020-21 to 2029-30 of approximately 430,000 units as stated in the Long Term Housing Strategy issued in 2020, the gross value of slope works is expected to maintain a steady growth. With our experienced management team and past track record, our Directors believe that we are well-positioned to capture the growing demand for slope works in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed “Industry overview – Market drivers” in this listing document.

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COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We offer a comprehensive range of quality slope works

Throughout our years of operations, we have accumulated our expertise in undertaking slope works projects of different scales in Hong Kong. We are specialised in providing integrated slope works services and the slope works undertaken by us mainly comprised (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works.

During the Track Record Period, if so requested by our customer, we may also provide design-and-build services such as slope upgrading and slope remedial works. Preparation of slope works design often involve advanced technical know-how and are usually handled by qualified engineers. Our design works are mainly handled by our executive Directors, Mr. Ho and Mr. Sieh, who have been registered as Registered Professional Engineers under the Engineers Registration Board. We believe that our executive Directors' qualifications in the engineering discipline have given us a competitive edge in the slope works industry.

In particular, during the Track Record Period, we had acted as subcontractor and undertook projects initiated by the CEDD, the Lands Department, the Water Supplies Department, the Architectural Services Department and the Housing Authority, respectively. Our Directors consider that our track record for undertaking slope works which were initiated by different Government authorities has served as a recognition of our service quality and industry reputation in Hong Kong.

Ability to undertake slope works projects in different roles

Throughout the Track Record Period, A-City Workshop has been a Registered Specialist Trade Contractor under reinforcement bar fixing (Group 1), concreting formwork (Group 1) and concreting (Group 1) and a Registered Subcontractor in general civil works with specialty of earthwork and geotechnical works of the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. A-City Workshop has also been registered with the Building Authority as a Registered General Building Contractor and a Registered Specialist Contractor under the sub-register of "site formation works" throughout the Track Record Period. Leveraging these registrations, our Group was able to undertake public sector projects in the role of subcontractor and private sector projects either as main contractor or subcontractor.

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Since the GEM Listing, we have continued to strengthen our competitiveness in the slope works industry. In particular, A-City Workshop has successfully registered as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” in June 2020. Our probationary status as an Approved Specialist Contractor has broadened the source of our projects as we could leverage such registration to tender for public sector projects (i) directly from the Government as a main contractor subject to the Tender Limit for Government Contracts; and (ii) in the role of subcontractor for those public sector projects which required the main contractors to engage slope works subcontractors who are registered Approved Specialist Contractor. Since we became a Probationary Contractor and up to the Latest Practicable Date, our Group has tendered for seven public sector projects directly from the Government as a main contractor and responded to two invitations from main contractors to submit tender for potential public sector projects which required the main contractor to engage slope works subcontractors who are registered as Approved Specialist Contractor.

According to the Industry Report, there are more than 200 contractors registered as Registered Specialist Contractors under the sub-register of site formation works category. According to the Development Bureau, only 41 contractors were registered on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls” as at the Latest Practicable Date, among which 17 were on probation and 24 obtained a confirmed status. In light of the limited number of slope works contractors registered on the List of Approved Specialist Contractors for Public Works, our executive Directors consider that our success in becoming an Approved Specialist Contractor has reinforced our industry reputation, strengthened our market presence and increased our corporate profile in the slope works industry in Hong Kong.

Possession of a pool of skilled workers

We maintain a pool of site workers who are skilled in performing various kinds of slope works. As at the Latest Practicable Date, our Group had a total of 199 full-time site workers. The skilled workers deployed by us are registered for the relevant trade divisions pursuant to the “Designated workers for designated skills” provision under the Construction Workers Registration Ordinance. For further details, please refer to the paragraph headed “Regulatory overview – Labour, health and safety – Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)” in this listing document. With a pool of skilled workers, our Directors believe that we are well-positioned to cater to the manpower and skills requirements for projects of varying scales and complexity, which in turn strengthens our industry position. Besides, given a profit margin is generally factored in the subcontracting expenses charged by our subcontractors, our Directors consider that we can offer a competitive price for performing slope works with our own labour.

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Experienced and dedicated management team

Our management team has extensive industry knowledge and project experience in the construction industry. Our Group is led by our executive Directors, Mr. Ho and Mr. Sieh, who have been fundamental to the development of our Group. Each of Mr. Ho and Mr. Sieh has approximately 20 years of experience in civil engineering industry, respectively. Mr. Ho was admitted as a member of the Hong Kong Institution of Engineers in March 2002 and was registered as a Registered Professional Engineer under the Engineers Registration Board in July 2003. Mr. Sieh was admitted as a member of the Hong Kong Institution of Engineers in March 2001 and was registered as a Registered Professional Engineer under the Engineers Registration Board and a member of the Institution of Structural Engineers in October 2000. Mr. Ho and Mr. Sieh are primarily responsible for the overall management, strategic planning and the day-to-day business operation of our Group.

Our Directors are supported by our project management team consisting of 24 personnel as at the Latest Practicable Date, who possess practical skills and experience as required in handling our projects. Mr. Lau Chiu Ming, our project manager, has over nine years of experience in civil engineering industry. For further information regarding the background and experience of our Directors and senior management, please refer to the section headed “Directors and senior management” in this listing document.

Stringent quality control and high safety standard and environmental impact control

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Our quality management system has been certified to satisfy the requirement of ISO 9001:2015. We have also set up an occupational health and safety system to promote safe working practice among all employees and to prevent the occurrence of accidents through safety inspections. Our health and safety management system has been certified to be in conformance with OHSAS 18001:2007 in October 2018 and ISO 45001:2018 in September 2020. Further, we have also set up an environmental management system to promote environmental awareness and to prevent pollution of the environment resulting from projects undertaken by us, and our environmental management system has been certified to satisfy the requirements of ISO 14001:2015.

Our Directors believe that our stringent quality assurance system and strong commitment to environmental and occupational health and safety management will allow us to be better positioned to deliver quality works on time and within budget, thereby strengthening our position as a slope works contractor in Hong Kong.

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BUSINESS STRATEGIES

Our Group's key business strategies have remained unchanged since the GEM Listing.

We intend to strengthen our market position and increase our market share by pursuing the following strategies:

Leveraging our registration as Approved Specialist Contractor to tender for public sector projects directly from the Government

According to the Industry Report, the revenue of public slope works in Hong Kong increased from approximately HK\$1,853.8 million in 2015 to approximately HK\$2,089.6 million in 2019, at a CAGR of approximately 3.0%. Being driven by the increasing population and more buildings built adjacent to slopes in Hong Kong, it is expected that the Government will put more effort on the promotion of the Landslip Prevention and Mitigation Programme, to ensure the safety of all man-made slope and natural hillside. Therefore, the estimated revenue of public slope works in Hong Kong is forecasted to increase from approximately HK\$1,915.4 million in 2020 to approximately HK\$2,377.1 million in 2025, at a CAGR of approximately 4.4%. Based on information publicly available from the CEDD, there were 30 ongoing public slope works projects initiated under the Landslip Prevention and Mitigation Programme as at 1 December 2021.

In order to capture the business opportunities associated with the forecasted growth in public slope works in Hong Kong, our principal operating subsidiary, A-City Workshop, has successfully registered as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of "Landslip preventive/remedial works to slopes/retaining walls" in June 2020. Before our Group became registered as an Approved Specialist Contractor, our Group was not qualified to submit tender directly to the Government for slope works and hence we could only secure public sector projects through tender invitations received from those construction contractors which are registered as Approved Specialist Contractors. Therefore, to a large extent, our past involvement in public sector projects was dependent on, among other factors, our customers' service capacity, financial capability and their success in obtaining public sector projects.

Our registration as a Probationary Contractor on the List of Approved Specialist Contractor has broadened our tender exposure because being on such list is a prerequisite for tendering for public slope works contracts directly from the Government. As a Probationary Contractor, our Group is currently eligible to submit tenders directly to the Government, subject to the limitation that we may take on not more than two Government contracts tendered with total outstanding value of works of not greater than HK\$184 million (HK\$114 million prior to 1 March 2021).

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Since we became a Probationary Contractor, our Group has continuously reviewed tender notices published in gazettes and/or Government websites to identify potential public sector projects suitable for tender. As at the Latest Practicable Date, our Group had directly tendered for seven public sector projects as main contractor with the Lands Department, the CEDD and the Highways Department. Among the seven tenders submitted, one tender was under tender selection process as at Latest Practicable Date.

Pursuant to the Contractor Management Handbook revised and published by the Development Bureau in January 2021, a Probationary Contractor may apply to the Secretary for Development in writing for confirmed status when they have satisfactorily completed, as main contractor or first-tier subcontractor, at least one Government landslip preventive measures contract or its first-tier subcontract after gaining the probationary status, containing multiple sites and of value not less than HK\$65.0 million (the “**Government Contract Requirement**”). Confirmation will also be subject to the contractor being able to meet the financial criteria applicable to confirmed status, having the appropriate technical and management capabilities and in all other ways being considered suitable for confirmation. As at the Latest Practicable Date, our Group has yet to fulfil the Government Contract Requirement for promoting our registration as an Approved Specialist Contractor from probationary to confirmed status. As such, our Group has not submitted an application for promoting our registration from probationary to confirmed status, and our Directors expect that our timeline for the promotion of our registration will mainly depend on our fulfilment of the Government Contract Requirement.

Our Group intends to promote our registration as an Approved Specialist Contractor from probationary to confirmed status. As at the Latest Practicable Date, a substantial portion of our projects on hand are public sector projects and such projects were undertaken by us in the role of first-tier subcontractor. Therefore, regardless of whether we could obtain any project directly from the Government after gaining the probationary status, we may make use of our project experience and performance as first-tier subcontractor from our completed projects to fulfil the Government Contract Requirement. Among our 20 projects on hand as at the Latest Practicable Date, Project O02 and #28 each has a contract value of above HK\$65.0 million. Each of Project O02 and #28 is a public sector project of which the project owner is a Government department. Project O02 and #28 were awarded by Customer C and Geotech Engineering Limited, respectively. The project sites of Project O02 involved various locations in the Hong Kong Island, Kowloon and New Territories, while the project sites of Project #28 involved various locations in Kowloon and New Territories. Our customers for these projects are the main contractors directly engaged by the relevant Government department and we undertook these projects in the role of a first-tier subcontractor. Barring any unforeseen circumstances, Project O02 and #28 are expected to complete in or around December 2024 and August 2022, respectively. The completion of any of these projects should enable our Group to fulfil the Government Contract Requirement. Based on the volume of our projects backlog and the availability of suitable Government projects for direct tendering, we will consider submitting an application for promoting our registration as an Approved Specialist Contractor from probationary to confirmed status after we have fulfilled the Government Contract Requirement. Once our registration is promoted to confirmed status, we will be eligible to tender for public sector projects with unlimited value. Our Directors consider that this will maximise our exposure to and further increase

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our business opportunities for public sector projects. For further details of Project O02 and #28, please refer to the paragraph headed “Business – Projects on hand” below in this section.

Further, based on information available on the website of the Development Bureau as at the Latest Practicable Date, there were 41 contractors registered on the List of Approved Specialist Contractors for Public Works under the category of “Landslip preventive/remedial works to slopes/retaining walls”, among which, 17 were on probation and 24 were on confirmed status. In light of the limited number of Approved Specialist Contractors which have obtained confirmed status, our Directors consider that our plan to promote our registration to confirmed status will further reinforce our industry reputation, strengthen our market presence and increase our corporate profile in the slope works industry in Hong Kong.

Subject to (i) our fulfilment of the Specific Working Capital Requirement (as further discussed in the paragraph headed “Implementation of business strategies and use of proceeds” below in this section); and (ii) the Tender Limit for Government Contracts, our Group will continue to submit tenders for those public sector projects we found suitable as main contractor.

Enhancing our prospects of obtaining new projects from construction contractors, private property owners and developers

According to the Industry Report, when construction contractors, private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works because such list provides them with assurance on the track record, financial position and service quality of the registered contractors. As such, our Directors consider that our registration as an Approved Specialist Contractor has enhanced our corporate profile and recognition and enabled our Group to be considered more favourably by our customers when tendering for slope works projects. After we became an Approved Specialist Contractor in June 2020, our Group was awarded two slope works projects from two new customers, being private property owners, as main contractor with original estimated contract sum of approximately HK\$9.5 million and HK\$2.0 million in November 2020 and January 2021, respectively. Our Directors believe that our registration as an Approved Specialist Contractor has given us competitive edge as customers would generally take into account our licences and registrations when they consider our tender submissions.

According to published tender notices, the Government may sometimes require the main contractors engaged in public sector projects to engage slope works subcontractors who are registered as Approved Specialist Contractor under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Since we became an Approved Specialist Contractor and up to the Latest Practicable Date, we were invited by a potential new customer, who is a construction contractor, to submit tender and enter into pre-bid agreements for two potential public sector projects as slope works subcontractor (the “**Pre-Bid Agreements**”). Based on the tender notice of the main contract for these public sector projects, where the main contractor intends to subcontract the slope works involved, it is required to engage slope works subcontractors who are registered as an Approved

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Specialist Contractor under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Pursuant to the Pre-Bid Agreements, in case the potential new customer is awarded with the relevant projects as a main contractor, it will engage us as a subcontractor by entering into formal subcontracts with us and our Group will carry out the subcontracted works according to our tender submission. Among the two tenders submitted, we were awarded with one project as at the Latest Practicable Date.

Our Directors consider that our registration as an Approved Specialist Contractor has broadened our source of projects as it not only allow us to tender for public sector projects directly from the Government, but also enables us to tender for those projects under which the main contractors are required to engage subcontractors who are registered as Approved Specialist Contractors. In line with our past business strategy, our Group has and will remain open to the prospect of undertaking slope works projects either as a main contractor or subcontractor. Going forward, we will continue responding to tender invitations from our existing and potential customers taking into consideration our capacity and available human resources in catering to their work schedule.

Diversifying our customer base and expanding our market share

According to the Industry Report, it is expected that the gross value of slope works in Hong Kong will further increase from approximately HK\$2,306.8 million in 2020 to approximately HK\$2,839.5 million in 2025, representing a CAGR of approximately 4.2%. As such, our Directors believe that our Group should focus on deploying our resources towards diversifying our customer base and competing for additional slope works projects in Hong Kong.

Following our registration as an Approved Specialist Contractor, our Group has become eligible to tender for public sector projects directly from the Government, which has in turn enlarged our tender exposure and enhanced our prospect in capturing additional market share. Further, based on information publicly available from the CEDD, our customers during the Track Record Period, together with our Group, accounted for no more than 25% of the number of ongoing projects under the Landslip Prevention and Mitigation Programme as at 1 October 2021. Based on the aforesaid, our Directors believe that there are ample room for our Group to further expand either through directly competing for slope works projects from the Government or working with those main contractors with whom we had no prior business engagements or connections.

During the Track Record Period and up to the Latest Practicable Date, our Group has made consistent effort in diversifying our customer base as evidenced by the increase in number of our customers from seven in FY2018 to ten in FY2020. In 2020, we have enlarged our customer base in the private sector by establishing business relationship with a bank, a temple and three engineering companies.

Some of our new customers during the Track Record Period, namely Geotech Engineering Limited, Customer F and the customer of Project O03 required our Group to provide performance bond in the amount of approximately 10% of the estimated contract sum in favour of them to secure our due performance and observance of our obligations

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under the contracts. According to the Industry Report, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance bonds.

During the Track Record Period, we provide performance bond either by (i) arranging with banks or insurance companies for the issuance of performance bond in favour of our customers which are secured by a pledged deposit from us equivalent to a certain percentage (i.e. 30% to 40%) of the amount of the performance bond issued; or (ii) placing a deposit directly to our customers equivalent to the amount of the performance bond. During the Track Record Period, our Group was required to provide performance bond for a total of eight projects, with each performance bond ranging from the amount of HK\$0.6 million to HK\$7.0 million, representing approximately 5.8% to 11.2% of the total revenue derived or expected to be derived from the relevant projects. As our Group continues to explore new business opportunities and enlarge our customer base, our Directors anticipate that we may encounter more request for performance bonds from new potential customers. Given our Group had successfully strengthened our working capital base with the net proceeds from the GEM Listing, our Directors consider that we are well-positioned to fulfil the performance bond requirement imposed by our potential and/or existing customers, thereby enhancing our prospects in broadening our customer base and obtaining additional projects.

IMPLEMENTATION OF BUSINESS STRATEGIES AND USE OF PROCEEDS

Our Group has taken active steps to strengthen our market position in the industry and expand our market share in Hong Kong since the GEM Listing.

Since the GEM Listing, we have continued to strengthen our market position. For example, A-City Workshop has been registered as a Probationary Contractor in June 2020. Our probationary status as Approved Specialist Contractor has broadened the source of our projects as we could leverage such registration to tender for public sector projects (i) directly from the Government as a main contractor subject to the Tender Limit for Government Contracts; and (ii) in the role of subcontractor for those public sector projects which required the main contractors to engage slope works subcontractors who are registered Approved Specialist Contractor. Since we became a Probationary Contractor and up to the Latest Practicable Date, our Group has tendered for seven public sector projects directly from the Government as a main contractor and responded to two invitations from main contractors to submit tender for potential public sector projects which required the main contractor to engage slope works subcontractors who are registered as Approved Specialist Contractor.

Our Group has achieved business growth with increasing revenue and profit after the GEM Listing. Our revenue increased to approximately HK\$183.9 million for FY2019 and further increased to approximately HK\$276.0 million for FY2020; whereas our gross profit increased to approximately HK\$33.4 million for FY2019 and further increased to approximately HK\$51.6 million for FY2020. Further, from 1 January 2020 (shortly after the GEM Listing) and up to 31 December 2020, our Group was invited by our customers to submit a total of 27 tenders, among which, our Group secured 16 projects.

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Our Group has reserved a majority of the net proceeds (i.e. approximately HK\$20.4 million) from the GEM Listing for fulfilling the working capital requirements for being a Probationary Contractor. In January 2021, in order to enhance the upward mobility of small and medium sized contractors, the Development Bureau has revised the tender limits, probationary limits and financial criteria of the List of Approved Specialist Contractors for Public Works. Pursuant to the Contractor Management Handbook revised and published by the Development Bureau in January 2021, in order to remain on the List of Approved Specialist Contractors for Public Works under the “Landslip Preventive/Remedial Works to Slopes/Retaining Walls” category, A-City Workshop must, among other things, maintain a minimum working capital (the “**Specific Working Capital Requirement**”) of either (a) HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021) if there are no outstanding contracts; or (b) the higher of HK\$13,900,000 (HK\$8,600,000 prior to 1 March 2021) or 10% of the combined annual value of uncompleted works on outstanding contracts both in Government and non-Government projects, subject to the limitation that A-City Workshop may take on not more than two Government contracts tendered with total outstanding value of works of not greater than HK\$184 million (HK\$114 million prior to 1 March 2021) in the role of main contractor while on probationary status.

As disclosed in the paragraph headed “Projects on hand” below in this section, as at the Latest Practicable Date, we had a total of 20 projects on hand, from which we expect to derive revenue of approximately HK\$216.5 million for the twelve months ending 30 June 2022. Without taking into account any additional projects to be obtained by us, the estimated revenue to be derived in the twelve months ending 30 June 2022 from our projects on hand as at the Latest Practicable Date (i.e. approximately HK\$216.5 million), by definition, roughly equals the combined annual value of uncompleted works of our outstanding contracts for the the twelve months ending 30 June 2022. Accordingly, the current Specific Working Capital Requirement that we have to fulfil is approximately HK\$21.7 million (i.e. being 10% of HK\$216.5 million).

As at 31 October 2021 and without taking into account transactions which subsequently took place, our available resources for meeting the Specific Working Capital Requirement was approximately HK\$117.4 million, which is equivalent to the amount of our cash and bank balances at that time. Based on the aforesaid calculation and subject to the Tender Limit for Government Contracts, we are currently eligible to obtain additional contract works of up to approximately HK\$957 million (i.e. being our available working capital of HK\$117.4 million minus our current Specific Working Capital Requirement of HK\$21.7 million and then multiplied by 10).

Since the GEM Listing, we have also been strengthening our manpower by recruiting additional staff, including project management staff, site workers and administrative staff. During the period from the GEM Listing to the Latest Practicable Date, we expanded our manpower and recruited a total of 34 additional staff, including one project manager/site agent, one site engineer, two site foremen, one safety officer/supervisor, one labour officer, one crane truck operator, twenty five site workers and two administrative staff. As at the Latest Practicable Date, we had a total of 232 employees. For further details, please refer to the paragraph headed “Employees” below in this section.

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In addition, we have been strengthening our machinery by acquiring additional machinery, including four drilling rigs, three grout pumps, one shotcrete machine, one pneumatic drill, one crane truck, four air compressors, two generators and five motor vehicles. Our executive Directors consider that the purchase of additional machinery enables us to cope with our business development, increase our overall efficiency and capacity in performing works and strength our ability to cater for the different needs and requirements of various customers.

Besides, we have utilised part of the net proceeds from the GEM Listing to increase our reserve for financing the issue of performance bonds in favour of our customers. According to the Industry Report, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance bonds. After the GEM Listing, we have taken out performance bond for four projects.

Our Directors are of the view that the existing implementation plans have successfully helped our Group to achieve our business strategies. Our Group will continue to apply such implementation plan in pursuit of our business strategies.

Use of proceeds

The final offer price for the GEM Listing was HK\$0.60 per Share, and the actual net proceeds from the GEM Listing were approximately HK\$37.1 million, after deducting the listing-related expenses of approximately HK\$22.9 million. This amount was lower than the estimated net proceeds of approximately HK\$40.0 million, which was based on the mid-point offer price of HK\$0.65 per Share, as disclosed in the GEM Prospectus. In light of the difference between the actual and estimated amount of the net proceeds, our Group has utilised the net proceeds in the same proportions as allocated for the various usage under our implementation plans pursuant to the disclosure in the GEM Prospectus.

The table below sets forth the details of our use of actual net proceeds from the GEM Listing and the actual amount utilised up to 30 June 2021 (being the latest practicable date to determine our Group's actual use of net proceeds):

	Planned use of actual net proceeds		Actual use of net proceeds up to 30 June 2021	
	<i>HK\$ million</i>	%	<i>HK\$ million</i>	%
Strengthening our manpower by recruiting additional staff	10.5	28.3	10.5	28.3
Acquisition of additional machinery	4.4	11.9	4.4	11.9
Increasing our reserve for financing the issue of performance bonds in favour of our customers	1.8	4.9	1.8	4.9
Maintaining the specific working capital required for being an Approved Specialist Contractor	20.4	54.9	20.4	54.9
Total	<u>37.1</u>	<u>100.0</u>	<u>37.1</u>	<u>100.0</u>

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REASONS FOR THE TRANSFER OF LISTING

Our Directors are of the view that the GEM Listing is of assistance to our Group to gain public recognition and profile. After the GEM Listing, our Group has achieved business growth in our revenue and profit. Our Directors consider that since the Main Board is perceived to enjoy more premium status by investors, the Transfer of Listing, if approved and proceeded, will further promote our Group's corporate profile and recognition among public investors and increase attractiveness of the Shares to the public investors and thus broaden our Group's investor base and enhance the trading liquidity of the Shares. Furthermore, obtaining a listing status on the Main Board will strengthen our Group's position in the industry and enhance our Group's competitive strengths in retaining staff and attracting customers. Therefore, our Directors are of the view that the Transfer of Listing will be beneficial to the future growth, financing flexibility and business development of our Group which will create a long-term value to our Shareholders.

As at the date of this listing document, the Board has no plans to change the nature of the business of our Group following the Transfer of Listing. The Transfer of Listing will not involve any issue of new Shares by our Company.

DESCRIPTION OF OUR SERVICES

We are specialised in providing integrated slope works services and our slope works during the Track Record Period mainly comprised (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of debris flow protection rigid barriers; (iv) construction of flexible barrier system; (v) installation of raking drains; (vi) installation of wire meshes and mats for erosion control; (vii) construction of concrete maintenance stairway/access; and (viii) landscape softworks and establishment works. If so requested by our customer, we may also provide design-and-build services such as slope upgrading and slope remedial works.



Drilling and installation of soil nails



Construction of retaining walls

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Installation of debris flow protection rigid barriers



Construction of flexible barrier system



Installation of raking drains



Installation of wire meshes and mats for erosion control



Construction of concrete maintenance stairway/access



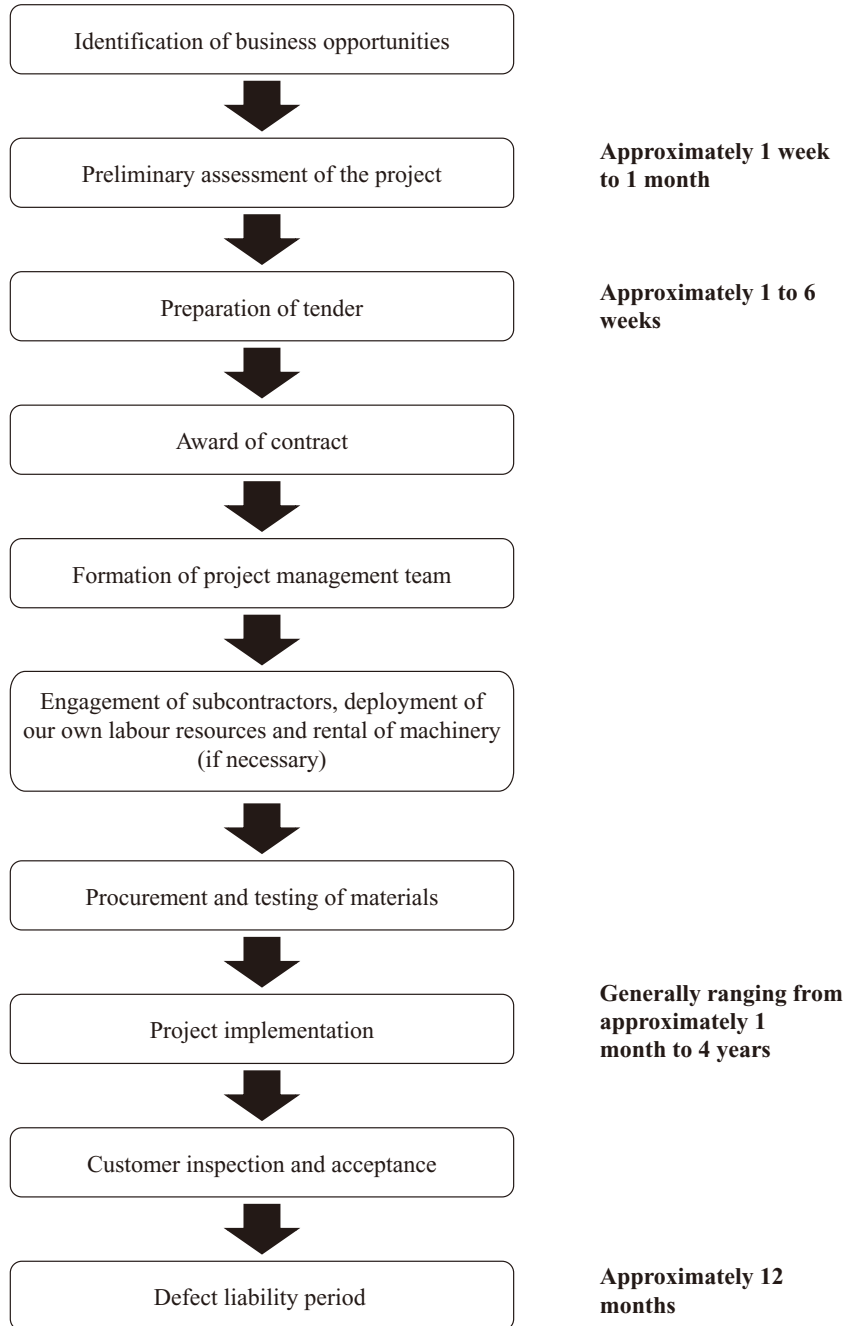
Landscape softworks and establishment works

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BUSINESS OPERATIONS

Operation flow

Set out below is a flowchart summarising the principal steps of our business operations:



Note: The timeframe is calculated on an approximate basis and may vary from project to project depending on the complexity of the project, the requirements of our customers and/or our agreement with our customers on the timeframe for the principal steps.

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Identification of business opportunities

During the Track Record Period, we identified potential projects mainly through invitation for tender from customers. Our Group received from time to time invitations to submit tender from construction contractors and private property owners in Hong Kong.

In June 2020, A-City Workshop has successfully applied for registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Since then, we are eligible to tender for public sector projects (i) directly from the Government as a main contractor subject to the Tender Limit for Government Contracts; and (ii) in the role of subcontractor for those projects which required the main contractors to engage slope works subcontractors who are registered Approved Specialist Contractor.

Since we became an Approved Specialist Contractor, we were invited by a construction contractor to submit tender and enter into pre-bid agreements for potential public sector projects as slope works subcontractor (the “**Pre-Bid Agreements**”). Based on the tender notice of the main contract for these public sector projects, where the main contractor intends to subcontract the slope works involved, it is required to engage slope works subcontractors who are registered as an Approved Specialist Contractor under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Pursuant to the Pre-Bid Agreements, in case the potential new customer is awarded with the relevant projects as a main contractor, it will engage us as a subcontractor by entering into formal subcontracts with us and our Group will carry out the subcontracted works according to our tender submission.

Our management team would also monitor the gazettes and different Government websites for new and upcoming slope works projects and explore potential opportunities with the relevant Government authorities or their main contractors.

Preliminary assessment of the project

The tender documents and project details provided by our customers generally contain project description, scope of services required, expected commencement date, contract period, payment term and timeframe for submitting the tender.

In general, we would review and evaluate the tender documents and/or project details available to us to assess the scope of services, our capability, the expected complexity, our available human resources, feasibility of the project and whether we are able to fulfil the Specific Working Capital Requirement and the Tender Limit for Government Contracts, before we determine to proceed with the preparation of tender.

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Preparation of tender

Our executive Directors are primarily responsible for the preparation of tender proposal. Our executive Directors may conduct site visit to the place at which the project is to be undertaken so as to have a better assessment of the complexity of the works involved.

Our tender proposal generally includes our corporate profile, track record, scope of our services, proposed service fees, payment terms, defect liability period and duration of the project. The tender proposal will be approved and endorsed by our executive Directors before submission to our customers.

We estimate the costs to be incurred in the project based on our past experience and the recent price trends for the types of materials to be used in the project. We may also obtain non-binding quotations from our materials suppliers and/or subcontractors in making our cost estimation. For further information on our pricing strategy, please refer to the paragraph headed “Pricing strategy” below in this section.

Our customers may arrange interviews with us after receiving our tender proposal in order to have a further understanding of our personnel, expertise and experience. We may be required to answer queries in relation to our tender submission. Our customers may also negotiate on our scope of service.

Award of contract

Our customers generally confirm our engagement by issuing a letter of award or entering into a formal service contract with us. During the Track Record Period, the contracts with our customers were mainly on re-measurement basis. Our re-measurement contracts generally include our scope of services and bill of quantities which sets out the agreed unit rates, the estimated quantities of each item of works to be consumed or deployed in the project, payment terms, project duration and other standard terms of services. A typical contract also contains an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to the customer’s orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual works done. For further details, please refer to the paragraph headed “Our customers – Principal terms of engagement” below in this section.

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The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
Number of projects for which we have submitted tenders	17	21	27	19 ^(Note2)
– Public sector	13	12	13	8
– Private sector	4	9	14	11
Number of projects awarded ^(Note 1)	9	11	16	10
– Public sector	6	7	6	4
– Private sector	3	4	10	6
Success rate (%) ^(Note 1)	52.9	52.4	59.3	52.6

Notes:

1. In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.
2. Out of the 19 projects for which we submitted tenders in the six months ended 30 June 2021, the result of one project was pending as at the Latest Practicable Date.

Leveraging on our expanded service capacity in terms of manpower and machinery as well as our available financial resources upon the implementation of our business expansion plans following our GEM Listing, our Group has actively approached our existing and potential customers for potential business opportunities and tendered for more slope works projects as demonstrated by the increase in the number of tenders submitted by our Group from 21 for FY2019 to 27 for FY2020. Further, our executive Directors consider that the expansion in the scale of our in-house resources has given us flexibility to offer a more competitive pricing to our customers, resulting in the increase in number of projects awarded to our Group from 11 for FY2019 to 16 for FY2020^(Note).

The number of our tendered and awarded projects in the public sector remained relatively stable throughout the Track Record Period. Meanwhile, the number of our tendered projects and awarded projects in the private sector increased significantly from FY2019 to FY2020^(Note). Our executive Directors consider that the increase in number of private sector projects awarded to us in FY2020 was mainly attributable to:

Note: The number of awarded projects for a financial year/period represents the number of projects awarded in respect of the tenders submitted during that financial year/period, irrespective of being awarded in the same financial year/period or subsequently.

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- (i) the successful registration of A-City Workshop, our principal operating subsidiary, as an Approved Specialist Contractor on probationary status under the category of “Landslip preventive/remedial works to slopes/retaining walls” has enhanced our prospects of obtaining private sector projects. According to the Industry Report, when construction contractors, private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works because such list provides them with assurance on the track record, financial position and service quality of the registered contractors. As such, our Directors consider that our registration as an Approved Specialist Contractor has enhanced our corporate profile and recognition and enabled our Group to be considered more favourably by our customers when tendering for slope works projects;
- (ii) the listing of the Shares on GEM of the Stock Exchange since 13 December 2019 has reinforced our reputation, strengthened our market presence and increased our corporate profile in the slope works industry; and
- (iii) leveraging our registration as an Approved Specialist Contractor as well as our listing status on GEM of the Stock Exchange, our Group has greater exposure to business opportunities for private sector projects. In FY2020, our Group successfully built up business relationships with six new customers and obtained a total of seven private sector projects from them, which contributed a total of approximately HK\$4.0 million and HK\$7.9 million to our revenue in FY2020 and the six months ended 30 June 2021, respectively.

During the Track Record Period, our Group had from time to time received invitations for tenders when our available resources were occupied by other projects on hand. Nonetheless, on occasion, in order to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future, it was our strategy to respond to our customers’ invitations by submitting tenders instead of turning them down. In such circumstances, our Directors would take a more prudent approach in costs estimation by factoring a higher profit margin even though it may cause our tender price to become less competitive than those submitted by our competitors. Due to such strategy and subject to the tender strategy of our competitors from time to time, we may experience fluctuations in our overall tender success rates from period to period

Our executive Directors believe such strategy allows us to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future. Due to such strategy and subject to the tender strategy of our competitors from time to time, we may experience fluctuations in our overall tender success rates from period to period.

In view of our financial performance during the Track Record Period and our projects on hand as at the Latest Practicable Date, our Directors consider that the overall success rate of our tenders during the Track Record Period has been satisfactory.

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Formation of project management team

We usually form a project management team which consists of project manager/site agent, site engineer, site foreman, safety officer/supervisor, labour officer and environmental officer. Our project management team is generally responsible for (i) formulation of detailed plans and schedule; (ii) arranging necessary materials, equipment and labour resources required for the projects; (iii) delegation of works and collaboration with our subcontractors (if necessary); (iv) supervision of work progress, budget and quality of services rendered; (v) preparation of progress report; and (vi) participation in project meetings and communication with our customers on a continual basis to ensure the works performed fulfil our customers' requirements, and are completed on schedule, within budget and in compliance with all applicable statutory requirements.

Set out below are the major responsibilities of each key member in a management team:

- Our project manager/site agent is mainly responsible for supervising our overall workforce on site, monitoring work efficiency, preparing submissions for payment applications, communicating with our customers, subcontractors and other members of the project management team on the project status, allocation of resources in a project, and reviewing the progress reports, safety reports and site records;
- Our site engineer is responsible for assisting our project manager/site agent in overseeing the engineering and technical aspects of the projects such as planning for the site operations and suitable methods and procedures;
- Our site foreman is responsible for assisting our project manager/site agent to supervise and monitor work progress on site, supervising workmanship and quality and preparing site records;
- Our safety officer/supervisor is responsible for supervising and overseeing the implementation of site safety measures, monitoring day-to-day occupational health and safety compliance and preparing safety reports;
- Our labour officer is responsible for handling the payroll of our workers, inspecting the personal identification document of each worker and preventing illegal workers from entering the site and from taking employment on site; and
- Our environmental officer is responsible for monitoring the ongoing compliance with the environmental management plan and providing environmental-related training for on-site workers.

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Engagement of subcontractors, deployment of our own labour resources and rental of machinery (if necessary)

We possess our own direct labour resources for performing slope works. Depending on the availability of our labour resources and the types of specialised works involved, we may also subcontract the works to subcontractors. For further details, please refer to the paragraph headed “Our suppliers” below in this section.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers. As at the Latest Practicable Date, our Group owned certain machinery, including air compressors, crane trucks, excavator and generators for performing slope works. For further details, please refer to the paragraph headed “Machinery and motor vehicles” below in this section.

Procurement and testing of materials

We are generally responsible for procuring materials required for our projects on our own account. The major types of materials that we purchased included cement and concrete, steel reinforcement and landscape materials. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors.

We will contact the suppliers that we have obtained quotations from during the tender phase, and may further negotiate on the pricing and contract terms with them after we are awarded with the projects. Depending on the scale of our purchase, our executive Directors will approve the purchase orders for the major supplies that will be used in the project. Our project management team will ensure that the materials are in conformance to our customers’ specifications. We will submit details of the materials to our customers for prior approval before placing our purchase orders with suppliers. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Depending on our customers’ requirements, quality inspection/testing may be conducted by third party professionals for certain kinds of materials to be used in our projects.

Project implementation

At the preliminary stage of the project, we would generally conduct certain site preparation works which typically include installing temporary hoarding, performing site planning and surveying and setting up site offices. In relation to site planning and surveying, the relevant works are either carried out by our executive Directors who are Registered Professional Engineers under the Engineers Registration Board or engineers arranged by our customers pursuant to our contra-charge arrangements with such customers. During the implementation of the projects, we may from time to time second certain project management personnel to our customers of the projects upon their requests.

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Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project. After the review and endorsement by our project managers/site agents, the monthly progress reports will then be submitted to our customers for record.

We perform in-house quality inspection and project supervision throughout project implementation in accordance with our in-house quality management systems. For further information regarding our quality management systems, please refer to the paragraph headed "Quality control" below in this section.

We generally receive progress payments from our customers based on our works done throughout project implementation. For further details on the payment terms, please refer to the paragraph headed "Our customers – Principal terms of engagement" in this section. As our general practice, we regard project as duly completed once we have received confirmations issued by our customers in relation to the relevant site works.

Customer inspection and acceptance

Upon completion of our works, our customers or their authorised representatives will conduct inspection and examination on our works done to ensure they comply with their quality standards, requirements and specifications. Upon passing the inspection, our customers or their authorised representatives will generally issue confirmations to us which indicate substantial completion of the site works.

Variation orders (if any)

During project implementation, our customers may request items of works which are not included in the bill of quantities set out in the contract. The value of those work items not specified in the bill of quantities will be negotiated with our customers on a case-by-case basis.

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our revenue attributable to the variation orders amounted to nil, approximately HK\$17.5 million, HK\$3.7 million and HK\$0.5 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material cancellation of works or material disputes with our customers on the amount of the variation orders.

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The following table sets forth a breakdown of our revenue, gross profit and gross profit margin during the Track Record Period derived from the original contracts and variation orders:

	FY2018			FY2019			FY2020			Six months ended 30 June 2021		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Original contracts	111,245	21,585	19.4	166,446	28,138	16.9	272,273	50,160	18.4	154,320	28,701	18.6
Variation orders	–	–	–	17,457	5,219	29.9	3,733	1,436	38.5	471	94	20.0
Total	111,245	21,585	19.4	183,903	33,357	18.1	276,006	51,596	18.7	154,791	28,795	18.6

Our gross profit margin attributable to variation orders for FY2019 and FY2020 was approximately 29.9% and 38.5%, respectively, which was mainly attributable to works performed under variation orders for Project #04 and Project #06:

- Project #04 was a public sector project awarded by Fong On Construction Limited involving multiple project sites, with estimated contract sum of approximately HK\$46.0 million. As we had started working on Project #04 since April 2017, we had accumulated experience and were familiar with the work scope and site conditions of the relevant project sites. As such, our Group was able to factor in a relatively higher profit margin when determining the price for the variation orders placed by Fong On Construction Limited for additional works to be performed under Project #04 in FY2019;
- Project #06 was a private sector project awarded by Fong On Construction Limited involving slope works performed at the Peak, with estimated contract sum of approximately HK\$22.9 million. Our Group performed additional works under variation orders for Project #06 in FY2019 and FY2020. Such variation orders involved slope works to be performed by us during specified timeframes in order to accommodate the traffic arrangements of the Peak Tram during the contract period. In our project planning, our Group had to prepare for additional resources to meet the relatively tight project schedule to ensure the normal operation and/or resumption of the Peak Tram services in a timely manner. Considering the aforesaid, our Group had factored in a relatively higher profit margin when determining the price for the variation orders placed by Fong On Construction Limited for Project #06.

Defect liability period

Our service contracts generally include a defect liability period of 12 months, following the completion of the relevant site works. During the defect liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

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Retention money (if necessary)

Depending on the contract terms and negotiation with our customers, our customers may hold up a certain percentage of each payment made to us as retention money. Retention money is normally up to 10% of the value of works done and subject to a maximum of 5% of the total contract sum. Typically, the retention money is released upon the expiry of the defect liability period of 12 months following the completion date of the project. Please refer to the paragraph headed “Financial information – Discussion on selected items from the consolidated statements of financial position – Contract assets” in this listing document for a further discussion and analysis regarding our retention receivables.

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

Revenue by project sector

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. Public sector projects refer to projects of which the project owners are Government departments or statutory bodies, while private sector projects refer to projects that are not public sector projects.

We acted as a subcontractor in most of our projects during the Track Record Period. In respect of public sector projects, our customers were generally main contractors which are engaged by different Government authorities, including the CEDD, the Lands Department, the Water Supplies Department, the Architectural Services Department and the Housing Authority. In respect of private sector projects, our customers were generally main contractors engaged by private property owners. To a lesser extent, we were on occasions engaged directly by private property owners in the role of main contractor. During the Track Record Period, we did not experience any loss-making project.

The following table sets forth a breakdown of our revenue during the Track Record Period for private and public sector projects and by reference to our role in the projects:

	FY2018			FY2019			FY2020		
	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue
Public sector									
– As sub-contractor	11	106,045	95.3	12	149,812	81.5	16	239,915	86.9
Private sector									
– As sub-contractor	4	5,000	4.5	6	34,091	18.5	11	34,939	12.7
– As main contractor	1	200	0.2	–	–	–	1	1,152	0.4
Sub-total	<u>5</u>	<u>5,200</u>	<u>4.7</u>	<u>6</u>	<u>34,091</u>	<u>18.5</u>	<u>12</u>	<u>36,091</u>	<u>13.1</u>
Total	<u>16</u>	<u>111,245</u>	<u>100.0</u>	<u>18</u>	<u>183,903</u>	<u>100.0</u>	<u>28</u>	<u>276,006</u>	<u>100.0</u>

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	Six months ended 30 June					
	2020	% of total		2021	% of total	
No. of projects	Revenue HK\$'000 (Unaudited)	revenue	No. of projects	Revenue HK\$'000	revenue	
Public sector						
– As sub-contractor	14	111,225	92.0	17	139,178	89.9
Private sector						
– As sub-contractor	7	9,619	8.0	7	13,692	8.9
– As main contractor	–	–	–	3	1,921	1.2
Sub-total	<u>7</u>	<u>9,619</u>	<u>8.0</u>	<u>10</u>	<u>15,613</u>	<u>10.1</u>
Total	<u>21</u>	<u>120,844</u>	<u>100.0</u>	<u>27</u>	<u>154,791</u>	<u>100.0</u>

Number of projects by range of revenue recognised

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, there were 16, 18, 28 and 27 projects which contributed a total of approximately HK\$111.2 million, HK\$183.9 million, HK\$276.0 million and HK\$154.8 million to our revenue, respectively. Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised				
HK\$10.0 million or above	4	6	9	5
HK\$5.0 million to below HK\$10.0 million	2	2	1	4
HK\$1.0 million to below HK\$5.0 million	6	5	8	6
Below HK\$1.0 million	<u>4</u>	<u>5</u>	<u>10</u>	<u>12</u>
Total	<u>16</u>	<u>18</u>	<u>28</u>	<u>27</u>

Top projects undertaken during the Track Record Period

The following tables set out the details of our top projects in terms of revenue contribution to our Group for each financial year/period during the Track Record Period:

Project No.	Customer (Note 1)	Estimated contract sum Public (Note 2), sector HK\$'000	Location of the project	Date of commencement and completion of our works (Note 3)	Scope of works (Note 4)	Invitation for tender by customer/open tender	Revenue (percentage of total revenue recognised for the year/period)						Gross profit margin during the Track Record Period %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000							
							FY2018		FY2019		FY2020				Six months ended 30 June 2021						
							HK\$'000	%	Rank	HK\$'000	%	Rank			HK\$'000	%	Rank	HK\$'000	%	Rank	
#01	Customer C	98,000	Public	Northern regions	Commencement: November 2017 Completion: April 2020	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	28,556	25.7	2	48,546	26.4	1	18,298	6.6	5	-	-	14.1	-	
#02	Geotech Engineering Limited	40,000	Public	Various locations in Kowloon and New Territories	Commencement: January 2020 Completion: April 2021	(D), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	-	58,051	21.0	1	11,449	7.4	5	13.3	-
#03	Customer F	70,000	Public	Southern regions	Commencement: January 2020 Completion: October 2021	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	-	54,851	19.9	2	20,890	13.5	3	20.7	Six months ending 31 December 2021: 15,259
#04	Fong On Construction Limited	46,000	Public	Various locations in Hong Kong Island, Kowloon and New Territories	Commencement: April 2017 Completion: April 2021	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	30,273	27.2	1	23,262	12.6	4	418	0.2	-	87	0.1	-	25.8	-
#05	Customer C	42,000	Public	Northern regions	Commencement: May 2020 Completion: October 2021	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	-	38,558	13.9	3	26,556	17.1	2	14.7	Six months ending 31 December 2021: 5,106
#06	Fong On Construction Limited	22,934	Private	The Peak	Commencement: November 2018 Completion: January 2020	(D), (V), (VI), (VII), (VIII)	Invitation for tender by customer	447	0.4	-	26,419	14.4	3	3,928	1.4	-	-	-	-	37.1 ^(Note 6)	-
#07	Geotech Engineering Limited	30,000	Public	Various locations in Kowloon and New Territories	Commencement: January 2019 Completion: January 2020	(D), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	28,830	15.7	2	1,521	0.6	-	-	-	-	13.1	-

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Revenue (percentage of total revenue recognised for the year/period)

Project No.	Customer (Note 1)	Estimated contract sum Public sector (Note 2) HK\$'000	Private sector	Location of the project	Date of commencement and completion of our works (Note 3)	Scope of works (Note 4)	Invitation for tender by customer/open tender	FY2018		FY2019		FY2020		Six months ended 30 June 2021		Gross profit margin during the Track Record Period %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000		
								HK\$'000	%	Rank	HK\$'000	%	Rank	HK\$'000	%			Rank	HK\$'000
#08	Customer F	20,000	Public	Tuen Mun, Yuen Long, North district, Tai Po and Shatin	Commencement: March 2019 Completion: February 2020	(I), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	18,043	9.8	5	4,190	1.5	-	-	-	11.4	
#09	Geotech Engineering Limited	20,000	Public	Various locations in Hong Kong	Commencement: February 2019 Completion: August 2020	(I), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	6,142	3.3	8	15,707	5.7	7	-	-	9.6 ^(Note 7)	
#10	Customer F	20,000	Public	Tuen Mun, Yuen Long, North district, Tai Po and Shatin	Commencement: February 2020 Completion: April 2021	(I), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	18,977	6.9	4	5,011	3.2	9	15.4
#11	Tai Kam Construction Engineering Company Limited	78,000	Public	Various locations in Kowloon, New Territories and Outlying Islands	Commencement: June 2015 Completion: October 2021	(I), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	15,704	14.1	3	2,311	1.3	10	663	0.2	-	-	-	22.1
#12	Geotech Engineering Limited	40,000	Public	Various locations in Hong Kong	Commencement: September 2020 Completion: December 2021	(I), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	15,935	5.8	6	34,904	22.5	1	12.7 ^(Note 7)
#13	Geotech Engineering Limited	20,000	Public	Various locations in Hong Kong Island, New Territories and Lantau Island	Commencement: January 2019 Completion: December 2021	(I), (V), (VI), (VII)	Invitation for tender by customer	-	-	10,035	5.5	6	4,489	1.6	-	-	-	-	11.6
#14	Fong On Construction Limited	15,481	Public	Shing Mun Valley	Commencement: March 2019 Completion: March 2021	(V), (VIII)	Invitation for tender by customer	-	-	8,658	4.7	7	5,574	2.0	10	137	0.1	-	13.9
#15	Fong On Construction Limited	12,380	Private	Kadoorie Hill	Commencement: December 2019 Completion: March 2021	(I), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	70	Negligible	-	13,685	5.0	8	-	-	-	37.1 ^(Note 8)

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Revenue (percentage of total revenue recognised for the year/period)

Project No.	Customer (Note 1)	Estimated contract sum (Note 2) HK\$'000	Private/ Public sector	Location of the project	Date of commencement and completion of our works (Note 3)	Scope of works (Note 4)	Invitation for tender by customer/open tender	FY2018		FY2019		FY2020		Six months ended 30 June 2021		Gross profit margin during the Track after the Track Record Period (Note 5) %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000	
								HK\$'000	%	Rank	HK\$'000	%	Rank	HK\$'000	%			Rank
#16	Tai Kam Construction Engineering Company Limited	59,540	Public	Nam Chung and Sai Kung	Commencement: June 2015 Completion: March 2021	(I), (IV), (V), (VI), (VII), (VIII)	Invitation for tender by customer	12,277	11.0	4	774	0.4	-	531	0.3	25.3	-	
#17	Customer D	16,292	Private	Tsing Yi	Commencement: March 2020	(IV), (VII)	Invitation for tender by customer	-	-	-	-	11,161	4.0	9	5,971	3.9	25.2	-
#18	Customer D	7,112	Public	Lian Tang	Commencement: July 2017 Completion: March 2020	(IV), (VII)	Invitation for tender by customer	5,372	4.8	6	1,755	1.0	-	200	0.1	-	29.6	-
#19	Fong On Construction Limited	6,863	Private	Pokfulam	Commencement: October 2018 Completion: October 2020	(I), (VIII)	Invitation for tender by customer	2,662	2.4	7	3,806	2.1	9	235	0.1	-	14.5	-
#20	Geotech Engineering Limited	6,000	Public	Various locations in Hong Kong Island, New Territories West and Lantau Island	Commencement: January 2018 Completion: October 2018	(I), (V), (VI), (VII)	Invitation for tender by customer	5,379	4.8	5	-	-	-	-	-	-	4.7 ^(Note 7)	-
#21	Tai Kam Construction Engineering Company Limited	2,578	Public	Kwai Tsing	Commencement: February 2018 Completion: September 2018	(I), (VIII)	Invitation for tender by customer	2,411	2.2	8	-	-	-	-	-	-	39.5 ^(Note 9)	-
#22	Tai Kam Construction Engineering Company Limited	1,992	Public	Cheung Chau	Commencement: August 2018 Completion: March 2019	(I), (II)	Invitation for tender by customer	1,953	1.8	9	56	Negligible	-	-	-	-	19.9	-
#23	Customer D	3,734	Public	Tai Po	Commencement: October 2017 Completion: June 2018	(IV), (VII)	Invitation for tender by customer	1,885	1.7	10	-	-	-	-	-	-	27.3	-

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Revenue (percentage of total revenue recognised for the year/period)

Project No.	Customer (Note 1)	Estimated contract sum (Note 2) Public Private sector HK\$'000	Location of the project	Date of commencement and completion of our works (Note 3)	Scope of works (Note 4)	Invitation for tender by customer/open tender	FY2018		FY2019		FY2020		Six months ended 30 June 2021		Gross profit margin during the Track Record Period %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000
							HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%		
#24	Customer C	65,810	Public	Hung Shui Kiu	Commencement: February 2021 Completion: May 2024	(VIII)	Invitation for tender by customer	-	-	-	-	-	13,578	8.8	4	32.0 ^(Note 6) Six months ending 31 December 2021: 10,627 FY2022 onwards: 39,606
#25	Grand Tech Construction Company Limited	3,348	Private	Tsing Yi	Commencement: March 2021 Completion: April 2021	(VIII)	Invitation for tender by customer	-	-	-	-	-	3,233	2.1	-	38.8 ^(Note 1)
#26	Customer F	20,000	Public	Various locations in Hong Kong Island and outlying islands	Commencement: April 2021 Completion: March 2022	(I), (V), (VI), (VII)	Invitation for tender by customer	-	-	-	-	-	8,201	5.3	7	22.8 Six months ending 31 December 2021: 6,325 FY2022 onwards: 5,474
#27	Customer C	6,773	Public	Various locations in Hong Kong	Commencement: December 2019 Completion: October 2021	(I), (V), (VI), (VII)	Invitation for tender by customer	-	1,400	0.8	2,683	1.0	1,969	1.3	-	10.1 Six months ending 31 December 2021: 1,948
#28	Geotech Engineering Limited	70,000	Public	Various locations in Kowloon and New Territories	Commencement: May 2021 Completion: November 2022	(I), (II), (V), (VI), (VII)	Invitation for tender by customer	-	-	-	-	-	8,993	5.8	6	10.7 Six months ending 31 December 2021: 21,298 FY2022 onwards: 39,709
#29	Customer F	22,000	Public	Tuen Mun, Yuen Long, North District, Tai Po and Sha Tin	Commencement: May 2021 Completion: August 2022	(I), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	-	-	-	-	-	3,360	2.2	10	15.7 Six months ending 31 December 2021: 11,557 FY2022 onwards: 13,104

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Notes:

1. Please refer to the paragraph headed “Our customers – Top customers” below in this section.
2. The estimated contract sum shown in the above table represents the original estimated contract sum stated in the contract and does not take into account variation orders. The final contract sum will be determined based on the agreed unit rates and the actual quantities of work done.
3. Where applicable, future completion dates represent our management’s best estimates according to the expected completion dates specified in the relevant contracts (if any), the extension period granted by our customers (if any), and the actual work schedule up to the Latest Practicable Date.
4. Our major types of slope works can be categorised as follows:
 - (I) drilling and installation of soil nails;
 - (II) construction of retaining walls;
 - (III) installation of debris flow protection rigid barriers;
 - (IV) construction of flexible barrier system;
 - (V) installation of raking drains;
 - (VI) installation of wire meshes and mats for erosion control;
 - (VII) construction of concrete maintenance stairway/access; and
 - (VIII) landscape softworks and establishment works.
5. The estimated revenue to be recognised after the Track Record Period is calculated based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.
6. Our Group recorded a higher gross profit margin for Project #06 that involve slope works performed at the Peak. Project #06 involved slope works to be performed by us during specified timeframes in order to accommodate the traffic arrangements of the Peak Tram during the contract period. In our project planning, our Group had to prepare for additional resources to meet the relatively tight project schedule to ensure the normal operation and/or resumption of the Peak Tram services in a timely manner. Considering the aforesaid, our Group had factored in a relatively higher profit margin when determining the price for the project.
7. Our Group recorded lower gross profit margin for Project #09, #12 and #20 because we incurred a substantial amount of contra-charge to Geotech Engineering Limited for site planning and surveying works undertaken by the personnel deployed by Geotech Engineering Limited and materials procured from its designated suppliers. The proportion of site planning and surveying works requested by Geotech Engineering Limited had gradually decreased as we became more familiar with the quality control requirements of Geotech Engineering Limited and our gross profit margin with Geotech Engineering Limited continues to improve. For further details, please refer to the paragraph headed “Contra-charge arrangement with Geotech Engineering Limited” below in this section.
8. Our Group recorded a higher gross profit margin for Project #15 because we were required to provide design-and-build services such as slope upgrading and slope remedial works for Project #15. The preparation of slope works design was part of our value-added services which involved advanced technical know-how and were handled by our executive Directors, who have been registered as Registered Professional Engineers. Considering the aforesaid, our Group had factored in a relatively higher profit margin when determining the price for the project.

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9. Our Group recorded a higher gross profit margin for Project #21 because (i) the work schedule of Project #21 was relatively tight, with a project duration of approximately seven months; (ii) the estimated contract sum of Project #21 was relatively small; and (iii) the work sites of Project #21 were located in the same or nearby areas of other projects undertaken by us in the past. For further details, please refer to the paragraph headed “Our business relationships with Tai Kam Construction Engineering Company Limited” below in this section.
10. Our Group recorded a higher gross profit margin for Project #24 because we were able to perform most of the works involved in Project #24 with our own labour, resulting in smaller portion of works delegated to our subcontractors. The proportion of site works delegated to our subcontractors was less than 10% during the Track Record Period. Given that a profit mark-up is generally factored in the subcontracting expenses charged by subcontractors, we were able to attain a higher gross profit margin from Project #24, as a result of less involvement of subcontracting services.
11. Our Group recorded a higher gross profit margin for Project #25 because the work sites of the projects are located in the same area of Project #17. Leveraging on our understanding and familiarity with the geological conditions of the site areas, less site planning and surveying works were required for our site preparations, thereby reducing the associated costs incurred by us.

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Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021	From 1 July 2021 to the Latest Practicable Date
Opening number of projects <i>(Note 1)</i>	6	12	18	24	25
Number of new projects awarded to us <i>(Note 2)</i>	12	9	15	12	8
Less: Number of projects completed <i>(Note 3)</i>	(6)	(3)	(9)	(11)	(13)
Ending number of projects <i>(Note 4)</i>	12	18	24	25	20

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.
4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

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The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021	From 1 July 2021 to the Latest Practicable Date
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening value of backlog	168,681	155,501	159,320	190,572	408,907
Total value of new projects and variation orders awarded ^(Note 1)	98,065	187,722	307,258	373,126	177,128
Less: Revenue recognised	<u>(111,245)</u>	<u>(183,903)</u>	<u>(276,006)</u>	<u>(154,791)</u>	<u>(131,327)</u>
Ending value of backlog ^(Note 2)	<u><u>155,501</u></u>	<u><u>159,320</u></u>	<u><u>190,572</u></u>	<u><u>408,907</u></u>	<u><u>454,708</u></u>

Notes:

- Total value of new projects and variation orders awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the actual amount of orders under the contracts; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

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PROJECTS ON HAND

As at the Latest Practicable Date, our Group had 20 projects on hand (representing projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced). The following table sets out the details of our on-going projects as at the Latest Practicable Date:

Project No.	Location of the project	Customer (<i>Note 1</i>)	Private/ Public sector	Estimated contract sum (<i>Note 2</i>) HK\$'000	Date of commencement and completion of our works (<i>Note 3</i>)	Revenue recognised during			Estimated revenue to be recognised during (<i>Note 4</i>) Six months ending 31 December 2021 HK\$'000	FY2022 onwards HK\$'000
						FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000		
001	Various locations in Hong Kong	Customer F	Public	160,000	Commencement: January 2022 Completion: December 2026	-	-	-	-	160,000
002 (<i>Note 6 and 8</i>)	Various locations in Hong Kong	Customer C	Public	120,000	Commencement: June 2021 Completion: December 2024	-	-	863	11,767	103,370
#28	Various locations Kowloon and New Territories	Geotech Engineering Limited	Public	70,000	Commencement: May 2021 Completion: November 2022	-	-	8,993	21,298	39,709
003 (<i>Note 7 and 8</i>)	Various locations in Hong Kong Island	A construction contractor	Public	60,000	Commencement: October 2021 Completion: March 2024	-	-	-	4,383	55,617
#24	Hung Shui Kiu	Customer C	Public	63,810	Commencement: February 2021 Completion: May 2024	-	-	13,578	10,627	39,606

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Project No.	Location of the project	Customer (Note 1)	Private/ Public sector	Estimated contract sum (Note 2) HK\$'000	Date of commencement and completion of our works (Note 3)	Revenue recognised during			Estimated revenue to be recognised during		
						FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000	Six months ended 30 June 2021 HK\$'000	Six months ended 31 December 2021 HK\$'000	FY2022 onwards HK\$'000
#29	Tuen Mun Yuen Long, North District, Tai Po and Shatin	Customer F	Public	22,000	Commencement: May 2021 Completion: August 2022	-	-	-	3,360	11,537	13,104
#12	Various locations in Hong Kong	Geotech Engineering Limited	Public	40,000	Commencement: September 2020 Completion:	-	-	15,935	34,904	16,161	-
#26	Hong Kong Island and outlying islands	Customer F	Public	20,000	December 2021 Commencement: April 2021 Completion: March 2022	-	-	-	8,201	6,325	5,474
O04	Sandy Ridge	Geotech Engineering Limited	Public	12,500	Commencement: May 2021 Completion: July 2022	-	-	-	2,105	6,451	3,444
O05	Tsuen Wan	A temple	Private	9,500	Commencement: January 2021 Completion: May 2023	-	-	-	750	700	8,050

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Project No.	Location of the project	Customer (Note 1)	Private/ Public sector	Estimated contract sum (Note 2) HK\$'000	Date of commencement and completion of our works (Note 3)	Revenue recognised during			Estimated revenue to be recognised during (Note 4)		
						FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000	Six months ended 31 June 2021 HK\$'000	Six months ending 31 December 2021 HK\$'000	FY2022 onwards HK\$'000
O06	Tseung Kwan O	Customer D	Public	8,400	Commencement: November 2021 Completion: October 2022	-	-	-	1,400	7,000	
O07	Bowen road	Fong On Construction Limited	Private	7,417	Commencement: August 2021 Completion: March 2022	-	-	-	5,938	1,779	
O08	The Peak	Fong On Construction Limited	Private	5,232	Commencement: September 2021 Completion: March 2022	-	-	-	2,093	3,139	
#13	Various locations in Hong Kong Island, New Territories and Lantau Island	Geotech Engineering Limited	Public	20,000	Commencement: January 2019 Completion: December 2021	-	10,035	4,489	375	5,101	-
Other Projects (Note 5)						-	-	-	3,422	3,612	
					Total:	-	10,035	20,424	73,129	107,203	443,904

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Notes:

1. Please refer to the paragraph headed "Our customers — Top customers" below in this section.
2. The estimated contract sum shown in the above table represents the original estimated contract sum stated in the contract and does not take into account variation orders. The final contract sum will be determined based on the agreed unit rates and the actual quantities of work done.
3. The expected completion date for a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.
4. The estimated revenue to be recognised after the Track Record Period is calculated based on the estimated contract sum, and if applicable, the actual work orders received by our Group as at the Latest Practicable Date.
5. Other projects represent our remaining six on-going projects as at the Latest Practicable Date.
6. The scope of work of Project O02 includes (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of raking drains; (iv) installation of wire meshes and mats for erosion control; (v) construction of concrete maintenance stairway/access; and (vi) landscape softworks and establishment works. The expected gross profit margin attributable to Project O02 is within the range of 14% to 16% based on our estimation.
7. The scope of work of Project O03 includes (i) drilling and installation of soil nails; (ii) construction of retaining walls; (iii) installation of raking drains; (iv) installation of wire meshes and mats for erosion control; and (v) construction of concrete maintenance stairway/access. The expected gross profit margin attributable to Project O03 is within the range of 17% to 19% based on our estimation. The customer of Project O03 is a private company incorporated in 1989 in Hong Kong, the primary activities of which include the provision of engineering and construction service in Hong Kong. Based on the latest annual return of the customer available at the Companies Registry, its share capital is approximately HK\$30.0 million. The customer is not a listed company and therefore its operational and financial information is not publicly available.
8. In making the estimation of the expected gross profit margin, our management takes into account (i) the scope of works; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machinery required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting fees; and (ix) the estimated cost for waste disposal.

OUR CUSTOMERS

Characteristics of our customers

During the Track Record Period, our customers mainly included main contractors in Hong Kong who engaged us in the role of subcontractor. To a lesser extent, we were on occasions engaged directly by private property owners in the role of main contractor. The number of customers with revenue contribution to our Group was seven, seven, ten and 12 for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively. During the Track Record Period, all of our customers were located in Hong Kong and our revenue was denominated in Hong Kong dollars.

Principal terms of engagement

We undertake slope works on a project-by-project basis. Our executive Directors consider such arrangement is in line with the slope works industry practice in Hong Kong. Our customers generally confirm our engagement by entering into a formal service contract with us. The principal terms of our engagement with customers are summarised as follows:

Scope of works

The contracts normally set out the scope of services to be carried out by our Group and other project specifications or requirements. Our customers generally require us to complete our works within a specified period and in accordance with their specified work schedule.

Duration

The contract usually specifies the commencement date and duration of the project implementation, typically ranging from one month to four years, subject to extension granted by the customers where necessary.

Contract sum

The contracts with our customers are mainly on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates and the actual quantities of work done. The contract contains an estimated contract sum, which is determined by the agreed unit rates of each item and the estimated total quantities of items of works set out in the bill of quantities.

In some projects, depending on our negotiation with customer, we had occasionally agreed on a lump sum fixed price with the customer for carrying out the scope of works.

For public sector projects, there is usually a clause in the service contracts which allows regular price adjustment to our service fees with reference to the overall inflation level according to official statistics of the Government.

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Payment terms

Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, our customer or its authorised person will examine and certify our works done by endorsing on our payment application or issuing a payment certificate to us. The credit term granted by us to our customers is generally 30 to 60 days from the issue of invoices. Some of our customers adopt a “pay when paid” policy with us and they have the rights to pay us after collection of payments from their customers.

Insurance

Where we were engaged as a subcontractor, our customers would normally take out contractors’ all risk insurance, third party liability insurance and employees’ compensation insurance covering their own liabilities as well as our liabilities. Alternatively, we would generally be required under our service contract to take out the aforesaid insurance policies when we were engaged as main contractor. For further details, please refer to the paragraph headed “Insurance” below in this section.

Procurement of materials

We are generally responsible for procuring the materials required for the project on our own account. We typically purchase materials from our internal list of approved materials suppliers. In certain circumstances, our customers may procure certain specified materials on behalf of us at our costs. In this context, we would regard such customer as our supplier of the relevant materials, further details of which are discussed in the paragraph headed “Top customers who were also our suppliers” below in this section.

Defect liability period

For details regarding our defect liability period, please refer to the paragraph headed “Operation flow – Defect liability period” above in this section.

Retention money

For details regarding our retention money, please refer to the paragraph headed “Operation flow – Retention money (if necessary)” above in this section.

Variation orders

For details regarding our variation orders, please refer to the paragraph headed “Operation flow – Variation orders (if any)” above in this section.

Performance bond

For projects awarded by Geotech Engineering Limited, one of the projects awarded by Customer F and Project O03 during the Track Record Period, we were required under the contracts to provide performance bond in the amount of approximately 10% of the estimated

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contract sum in favour of our customers. Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customer would be entitled to the guaranteed compensation for any monetary loss up to the amount of the performance bond. During the Track Record Period, we provide performance bond either by (i) arranging with bank or insurance company for the issuance of performance bond in favour of our customers, which are secured by a pledged deposit from us equivalent to a certain percentage (i.e. 30%-40%) of the amount of the performance bond issued; or (ii) placing a deposit directly to our customers in the amount equivalent to approximately 10% of the estimated contract sum. Our performance bond is generally discharged upon project completion.

During the Track Record Period and up to the Latest Practicable Date, the performance bond arranged by us in favour of our customers had not been called by reason of non-performance of the contract undertaken by us.

Liquidated damages

Liquidated damages clause may be included in the contracts to protect our customers against late completion of work. We may be liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally calculated on the basis of a fixed sum per day and/or according to certain damages calculating mechanism as stipulated under the contract. During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customers against us.

Termination

Our customers may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project. During the Track Record Period and up to the Latest Practicable Date, none of our contracts were terminated pursuant to the termination clause.

Top customers

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total revenue attributable to our top customer amounted to approximately HK\$34.6 million, HK\$63.8 million, HK\$95.7 million and HK\$58.0 million, representing approximately 31.1%, 34.7%, 34.7% and 37.5% of our total revenue in the relevant year/period, respectively. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total revenue attributable to our top five customers amounted to approximately HK\$109.5 million, HK\$180.0 million, HK\$270.2 million and HK\$148.0 million, representing approximately 98.5%, 97.9%, 98.0 % and 95.6% of our total revenue in the relevant year/period, respectively.

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FY2018

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Tai Kam Construction Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Since 2013	Within 7 days from receipt of payments by our customer from its customer; by cheque	34,578	31.1
2	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	33,770	30.4
3	Customer C	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	28,556	25.7
4	Customer D	A construction contractor company specialising in civil engineering works in Hong Kong and overseas	Since 2016	30 days; by cheque	7,257	6.5
5	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	5,380	4.8
			Top five customers combined		109,541	98.5
			All other customers		<u>1,704</u>	<u>1.5</u>
			Total revenue		<u><u>111,245</u></u>	<u><u>100.0</u></u>

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FY2019

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	63,842	34.7
2	Customer C	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	49,946	27.2
3	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	45,007	24.5
4	Customer F	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works, foundation works and other general building works in Hong Kong	Since 2019	42 days after certification by architects appointed in respect of the projects; by cheque	18,043	9.8
5	Tai Kam Construction Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works in Hong Kong	Since 2013	Within 7 days from receipt of payments by our customer from its customer; by cheque	3,141	1.7
			Top five customers combined		179,979	97.9
			All other customers		3,924	2.1
			Total revenue		<u>183,903</u>	<u>100.0</u>

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FY2020

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	95,703	34.7
2	Customer F	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works, foundation works and other general building works in Hong Kong	Since 2019	42 days after certification by architects appointed in respect of the projects; by cheque	78,018	28.3
3	Customer C	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	59,339	21.5
4	Fong On Construction Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works, general building works and associated services and other construction works in Hong Kong	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by cheque	25,558	9.3
5	Customer D	A construction contractor company specialising in civil engineering works in Hong Kong and overseas	Since 2016	30 days; by cheque	11,601	4.2
Top five customers combined					270,219	98.0
All other customers					<u>5,787</u>	<u>2.0</u>
Total revenue					<u><u>276,006</u></u>	<u><u>100.0</u></u>

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Six months ended 30 June 2021

Rank	Customer	Principal business activities	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
					HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Since 2018	60 days; by cheque	58,017	37.5
2	Customer C	A construction contractor company specialising in slope works, site formation works and demolition works in Hong Kong	Since 2016	45 days; by cheque	42,945	27.7
3	Customer F	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works, foundation works and other general building works in Hong Kong	Since 2019	42 days after certification by architects appointed in respect of the projects; by cheque	37,461	24.2
4	Customer D	A construction contractor company specialising in civil engineering works in Hong Kong and overseas	Since 2016	30 days; by cheque	6,382	4.1
5	Grand Tech Construction Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in building construction in Hong Kong	Since 2020	60 days; by cheque	3,233	2.1
			Top five customers combined		148,038	95.6
			All other customers		6,753	4.4
			Total revenue		<u>154,791</u>	<u>100.0</u>

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of the issued shares of our Company as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period.

Non-disclosure of the identities of our top customers and top suppliers

As at the Latest Practicable Date, each of Customer C, Customer D, Customer F and all suppliers has rejected our request with regard to the disclosure of their identities in this listing document. The Legal Counsel is of the view that we may face a real risk of legal

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dispute or a litigation suit by such customers and suppliers for the breach of confidence leading to claim for damages and injunction restraining us from such disclosure if we disclose their identities in this listing document in the absence of their respective consents based on the followings:

- in the event that the contract between us and the customer or supplier contains confidentiality clause restricting the disclosure of the identities of the contractual parties and other information of the contract, we are under a contractual duty not to disclose the identity in the absence of their respective consent;
- alternatively, even when the contract does not contain such confidentiality clause, the duty of confidentiality may arise under the equitable doctrine of confidence as a common law duty for trade secrets or commercial confidentiality, the unauthorised disclosure of which could prejudice to an unreasonable degree of commercial interest and/ or to the detriment of the other party;
- the Legal Counsel is of the view that the information of the customers and suppliers disclosed in this listing document, including the typical credit terms, payment method, revenue contribution or amount of purchase, constitutes confidential information, and thus we are obliged not to disclose their identities in this listing document in the absence of their respective consents, whether under the contractual or common law obligation as aforesaid.

Having regard to the view of the Legal Counsel, the risk of legal dispute which we may face, the possible negative impact on the business relationship with these customers and suppliers, our Directors are of the view, and the Sponsor concurs, that we cannot disclose the identities of those customers and suppliers in the absence of their respective consents. For further details of the background information of our top customers and suppliers, please refer to the paragraph headed “Further information on our top customers” and “Top suppliers” in this section.

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Further information on our top customers

Tai Kam Construction Engineering Company Limited is a subsidiary of Tai Kam Holdings Limited, a company listed on the GEM (the “**Tai Kam Holdco**”). According to the latest annual report of Tai Kam Holdco, its principal business activities include acting as a main contractor of slope works in Hong Kong. Based on the latest annual report of Tai Kam Holdco, for the year ended 30 April 2021, its revenue amounted to approximately HK\$137.8 million. As at the Latest Practicable Date, we do not have any ongoing projects that were awarded by Tai Kam Construction Engineering Company Limited. We have not received any tender invitation or obtained any new projects from Tai Kam Construction Engineering Company Limited since 2019. During the Track Record Period and up to the Latest Practicable Date, we had not received any negative feedbacks or complaints from Tai Kam Construction Engineering Company Limited regarding the service provided by us. Based on information publicly available from the CEDD as at 1 December 2021, there were 30 ongoing public sector slope works projects initiated under the LPMitP and none of them was awarded to Tai Kam Construction Engineering Company Limited. Since no LPMitP project was awarded to Tai Kam Construction Engineering Company Limited, we did not receive any tender invitation from Tai Kam Construction Engineering Company Limited for LPMitP project. Save as the aforesaid, our Directors are not aware of any factors that may have adversely affected Tai Kam Construction Engineering Company Limited’s interest to invite us to tender for its projects.

In August and October 2018, the controlling shareholder of Tai Kam Holdco, Glassy Gear Limited disposed (the “**Disposal**”) of its entire interest in Tai Kam Holdco. In May 2018, Mr. Lau Kan Sui Sanny and Mr. Lau Mei Chai resigned as executive directors of Tai Kam Holdco, whereas Mr. Lau King Shun resigned as an executive director, the chairman of the board, chief executive director of Tai Kam Holdco in January 2019. Our Directors confirmed that our Group did not have any business relationships with Mr. Lau King Shun, Mr. Lau Kan Sui Sanny and Mr. Lau Mei Chai or any of their respective associates after the Disposal.

Fong On Construction Limited is a subsidiary of Ri Ying Holdings Limited, a company listed on the Main Board of the Stock Exchange (the “**Fong On Holdco**”). According to the latest annual report of Fong On Holdco, its principal business activities include the provision of (i) foundation and site formation works, (ii) general building works, and (iii) other construction works including slope works in Hong Kong. Based on the latest annual report of Fong On Holdco, for the year ended 30 September 2020, its revenue amounted to approximately HK\$303.9 million.

Customer C is a private company incorporated in 1989 in Hong Kong, the principal activities of which include the provision of (i) slope works, (ii) site formation works and (iii) demolition works in Hong Kong. Customer C is registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” with confirmed status. Therefore, Customer C is eligible to tender for public sector projects with unlimited value. Based on the website of CEDD, as at 1 December 2021, at least two of the ongoing public sector slope works projects initiated under the LPMitP were awarded to Customer C, which were commenced in the second and third quarter of 2021, respectively, with aggregate

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contract sum of over HK\$125 million each. Customer C is also registered under the Buildings Ordinance as a Registered Specialist Contractors under the subregister of “demolition works” and “site formation works” categories. Furthermore, Customer C is a Registered Subcontractor in general civil works and foundation and piling of the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. Based on the latest annual return of Customer C available at the Companies Registry, its share capital is approximately HK\$21.5 million. Customer C is not a listed company and therefore its operational and financial information is not publicly available.

Customer D was founded in 1984 and is a private company in Hong Kong, the principal activities of which include the supply, design and installation of geosynthetics in Hong Kong, Macau, Southeast Asia and Southern China. Customer D has been a market player for more than 30 years, with profound knowledge in geosynthetics. Customer D’s end customers including the Government, project owners, institutions, contractors, designers, consultant engineers and maintenance authority. Customer D generally provide designing, installation, leak location survey, technical support and training services to its end customers. Customer D is a Registered Subcontractor in general civil works with specialty of geotechnical works and tanking and waterproofing and of the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. Customer D is also a member of the Hong Kong Greening Contractors Association, International Geosynthetics Society and the Association of Geotechnical & Geoenvironmental Specialist (Hong Kong). Based on the latest annual return of Customer D available at the Companies Registry, its share capital is approximately HK\$50,000. Customer D is not a listed company and therefore its operational and financial information is not publicly available.

Geotech Engineering Limited is a subsidiary of Geotech Holdings Ltd., a company listed on the Main Board of the Stock Exchange (the “**Geotech Holdco**”). According to the latest annual report of Geotech Holdco, its principal business activities include the provision of construction and engineering services including slope works in Hong Kong. Based on the latest annual report of Geotech Holdco, for the year ended 31 December 2020, its revenue amounted to approximately HK\$331.6 million.

Customer F was founded in 1995 and is a subsidiary of a company listed on the GEM (the “**Customer F Holdco**”). According to the latest annual report of Customer F Holdco, its principal business activities include undertaking slope works, foundation works and other general building works in Hong Kong. Based on information publicly available from the CEDD as at 1 December 2021, Customer F was involved in at least two ongoing public sector slope works projects initiated under the LPMitP, with aggregate contract sum exceeding HK\$250 million. Customer F is registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” with confirmed status and “Land Piling (Group II)”. Customer F is also registered under the Buildings Ordinance as a (i) Registered Specialist Contractor under the sub-register of “site formation works” and “foundation works” categories; and (ii) Registered General Building Contractor. Based on the latest annual report of Customer F Holdco, for the year ended 30 April 2021, its revenue amounted to approximately HK\$110.1 million. The customers of Customer F mainly include Government authorities such as the CEDD and the Lands Department.

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Grand Tech Construction Company Limited is a subsidiary of Grand Ming Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (the “**Grand Tech Holdco**”). According to the latest annual report of Grand Tech Holdco, its principal business activities include provision of building services in Hong Kong. Based on the latest annual report of Grand Tech Holdco, for the year ended 31 March 2021, its revenue amounted to approximately HK\$1.5 billion.

Saved as disclosed below, our executive Directors confirm that we, our subsidiaries, our Controlling Shareholders, our Directors and senior management and any of their respective associates do not have any past or present family, business, financing and employment relationship with our five largest customers during the Track Record Period:

- each of our two executive Directors, Mr. Sieh and Mr. Ho (being our Controlling Shareholders), were former employees of Tai Kam Construction Engineering Company Limited before joining our Group in late 2016. Mr. Sieh worked for Tai Kam Construction Engineering Company Limited from June 2011 to August 2016 as a site agent, whereas Mr. Ho worked for Tai Kam Construction Engineering Company Limited from November 2011 to August 2016 as a site agent as his last position; and
- FingerStones Engineering Limited, a construction company owned as to 95% by Mr. Ho and 5% by Ms. Lee Kim Kum (being the spouse of Mr. Ho), had previously acted as a subcontractor of Tai Kam Construction Engineering Company Limited, Fong On Construction Limited, Customer C and Customer D during the period from 2009 to 2018. FingerStones Engineering Limited was incorporated in May 2007 and was dissolved in May 2019.

Our business relationships with Tai Kam Construction Engineering Company Limited

(i) Details of our projects with Tai Kam Construction Engineering Company Limited

The following table sets out the revenue and gross profit margin of our Group’s projects with Tai Kam during the Track Record Period:

Project No.	Estimated contract sum <i>HK\$’000</i> <i>(Note)</i>	Private/ Public sector	Location of the project	Date of commencement and completion of our works	Revenue recognised during the Track Record Period <i>HK\$’000</i>	Gross profit margin during the Track Record Period %
#11	78,000	Public	Various locations in Kowloon, New Territories and Outlying Islands	Commencement: June 2015 Completion: October 2021	18,678	22.1

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Project No.	Estimated contract sum <i>HK\$'000</i> <i>(Note)</i>	Private/ Public sector	Location of the project	Date of commencement and completion of our works	Revenue recognised during the Track Record Period <i>HK\$'000</i>	Gross profit margin during the Track Record Period %
#16	59,540	Public	Nam Chung and Sai Kung	Commencement: June 2015 Completion: March 2021	13,582	25.3
#21	2,578	Public	Kwai Tsing	Commencement: February 2018 Completion: September 2018	2,411	39.5
#22	1,992	Public	Cheung Chau	Commencement: August 2018 Completion: March 2019	2,009	19.9
A1	1,200	Public	Yuen Long	Commencement: February 2018 Completion: September 2018	1,280	50.5
A2	900	Public	Tsuen Wan	Commencement: January 2018 Completion: September 2018	953	49.5

Note: The estimated contract sum represents the original estimated contract sum stated in the contract and does not take into account variation orders.

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(ii) *Principal terms of engagement with Tai Kam Construction Engineering Company Limited*

We undertake slope works on a project-by-project basis with Tai Kam Construction Engineering Company Limited, which is in line with the slope works industry practice in Hong Kong. The principal terms of our engagement with Tai Kam Construction Engineering Company Limited are set out in the formal service contracts, details of which are set forth below:

Contract sum

Our contracts with Tai Kam Construction Engineering Company Limited are on re-measurement basis. The final contract sum will be determined based on the agreed unit rates and the actual quantities of work done. The contract contains an estimated contract sum, which is determined by the agreed unit rates of each item and the estimated total quantities of items of works set out in the bill of quantities.

Payment terms

Our Group generally submits a progress payment application to Tai Kam Construction Engineering Company Limited on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, Tai Kam Construction Engineering Company Limited or its authorised person will examine and certify our works done by endorsing on our payment application or issuing a payment certificate to us. Tai Kam Construction Engineering Company Limited generally adopts a “pay when paid” policy with us and they have the rights to pay us within 7 days after collection of payments from their customers.

Defect liability period

We generally provide a defect liability period for projects awarded by Tai Kam Construction Engineering Company Limited. During the defect liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

Retention money

The arrangement for retention money is subject to the terms of the main contracts between the Government and Tai Kam Construction Engineering Company Limited. Pursuant to the contracts, the retention money will be released upon the expiry of the defect liability period following the completion date of the project.

Liquidated damages

We are liable to pay liquidated damages to Tai Kam Construction Engineering Company Limited if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract.

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Termination

Tai Kam Construction Engineering Company Limited may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project.

Our executive Directors confirmed and the Sponsor concurred that our transactions with Tai Kam Construction Engineering Company Limited during the Track Record Period were conducted on normal commercial terms and comparable to the transactions with our other customers, taking into consideration:

- our two largest projects with Tai Kam Construction Engineering Company Limited, namely Projects #11 and #16, had commenced in 2015, and substantial portion of these two projects were completed before the Track Record Period with final account certification process took place during the Track Record Period. Our gross profit margins attributable to Projects #11 and #16 during the Track Record Period were 22.1% and 25.3%, respectively, which are within the range of our gross profit margin attributable to relatively large scale projects (i.e. with estimated contract sum exceeding HK\$30.0 million) with other customers during the Track Record Period (i.e. ranging from 8.3% to 37.1%). The gross profit margin of Projects #11 and #16 for the period from the commencement date and up to the Latest Practicable Date was approximately 18.0% and 18.7%, respectively, which is comparable to our overall gross profit margin during the Track Record Period ranged from 18.1% to 19.4%. The gross profit margins attributable to Project #11 and #16 were slightly higher during the Track Record Period mainly because of the certification of certain work performed by us prior to the Track Record Period, such as landscape softworks and establishment works (the “**Prior Work Done**”) during the Track Record Period. It took a relatively long period for the Government to certify the Prior Work Done due to the work nature involved and hence our certification process with Tai Kam Construction Engineering Company Limited was also prolonged. Eventually, the Government has performed certification for the Prior Work Done at the final stage of the projects. Accordingly, Tai Kam Construction Engineering Company Limited could only perform certification for the Prior Work Done performed by us at the final stage of the projects (i.e. during the Track Record Period) while the certification of our final account was performed.
- meanwhile, the work sites of some projects (including Project #21, A1 and A2) are located in the same or nearby areas of other projects undertaken by us in the past. The work site of Project #21 is located in the same area of one work site of Project #11, while the work sites of Projects A1 and A2 are located in the same area of two work sites of Project #01. Leveraging on our understanding and familiarity with the geological conditions of the sites areas and close proximity to other work sites, less site planning and surveying works and plant establishment and mobilisation works were required, thereby reducing the costs incurred by us. Our executive Directors

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estimated that the cost savings of site planning and surveying expenses and other associated costs such as plant establishment and mobilisation costs were approximately HK\$200,000, HK\$250,000 and HK\$150,000 for Project #21, A1 and A2, respectively. The estimated cost savings are calculated based on the site planning and surveying expenses and other associated costs incurred in the same area of work sites of Projects #01 and #11 with Projects #21, A1 and A2. If we had to incur the aforesaid estimated site planning and surveying costs and other associated costs otherwise required for works sites which are not in the same area or distant from each other, our gross profit margins attributable to Project #21, A1 and A2 would have been approximately 31.2%, 31.0% and 33.7%, respectively. Further, our prior experience in carrying out slope works in the same or nearby areas also allows us to better assess the complexity of the projects and the relevant standards and requirements of the Government authority. Our executive Directors believed that our prior experience and track record would be considered favourably by Tai Kam Construction Engineering Company Limited when assessing our tenders and hence decided to charge a higher markup in our tender price for such projects.

Besides, those new projects with Tai Kam Construction Engineering Company Limited which commenced in FY2018 (i.e. Projects #21, #22, A1 and A2) were comparatively small in scale, with estimated contract sum ranging from approximately HK\$0.9 million to approximately HK\$2.6 million. As the work schedule of these small scale projects was relatively tight, with an average project duration of approximately eight months, and their estimated contract sum was relatively small, we had charged a higher profit margin in our tender price. If we had to incur the aforesaid estimated site planning and surveying costs and other associated costs otherwise required for works sites which are not in the same area or distant from each other, our gross profit margins attributable to Projects #21, A1 and A2 would have been approximately 31.2%, 31.0% and 33.7%, respectively, which are comparable to our average gross profit margin attributable to projects of similar scale (i.e. with estimated contract sum of HK\$2.5 million or less) and similar project duration (i.e. approximately six to 12 months) with other customers of approximately 36.5% during the Track Record Period.

In addition, our Group was able to perform most of the works involved in some of these small scale projects with our own labour, resulting in smaller portion of works delegated to our subcontractors. The proportion of site works delegated to our subcontractors of Projects A1 and A2 was on average less than 10% during the Track Record Period, which was substantially lower than our Group's average subcontracting ratio of approximately 28.1% during the Track Record Period. Given that a profit mark-up is generally factored in the subcontracting expenses charged by subcontractors, we were able to attain a higher gross profit margin from these new projects, especially Project A1 and A2, as a result of less involvement of subcontracting services. If we had to incur the aforesaid estimated site planning and surveying costs and other associated costs otherwise required

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for works sites which are not in the same area or distant from each other, the gross profit margins of Project A1 and A2 would have been approximately 31.0% and 33.7%, respectively, which are comparable to our average gross profit margin attributable to projects of similar subcontracting ratio (i.e. less than or equal to 10%) with other customers of approximately 30.2% during the Track Record Period.

- our gross profit margin attributable to Tai Kam Construction Engineering Company Limited during the Track Record Period was approximately 25.8%, while our gross profit margin attributable to other top five customers during the Track Record Period ranged from 11.7% to 42.6%. As such, there is no material deviation in our gross profit margin attributable to Tai Kam Construction Engineering Company Limited from the range of our gross profit margin attributable to other customers during the Track Record Period.
- our terms of engagement with Tai Kam Construction Engineering Company Limited were substantially similar to that with our other customers as set out in the paragraph headed “Our customers – Principal terms of engagement” above in this section.

Recent development of Geotech Engineering Limited

As disclosed in the announcements made by Geotech Holdings Ltd. dated 22 September 2020, 22 December 2020, 28 December 2020 and 5 July 2021, respectively:

- (a) Geotech Engineering Limited was the main contractor of a slope maintenance work in Marigold Road, Kowloon, Hong Kong where a fatal accident (the “**Accident**”) occurred in March 2020. As a result of the Accident, Geotech Engineering Limited received a total of twelve summonses (the “**Summonses**”) on various offences under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) and the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong) in September 2020. Geotech Engineering Limited was convicted of three charges under the Summonses (the “**Conviction**”) at the Court hearing held in December 2020 and the Court imposed a total fine of HK\$42,000 for offences under the Factories and Industrial Undertakings Ordinance and the Construction Sites (Safety) Regulations; and
- (b) Geotech Engineering Limited is an approved specialist contractor in the List of Approved Suppliers of Materials and Specialist Contractors for Public Works maintained by the Development Bureau under the categories of “landslip preventive/remedial works to slopes/retaining walls” (confirmed status) and “ground investigation field work” (group I status) and also an approved contractor included in the List of Approved Contractors for Public Works under the category of “site formation” (group B probationary status). As a result of the Accident, a panel of enquiry was conducted by the Development Bureau in June 2021 to consider whether Geotech Engineering Limited has caused or contributed to the Accident and if so, what regulatory action should be taken.

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As disclosed in the announcement made by Geotech Holdings Ltd. dated 30 July 2021 (the “**Announcement**”), having considered Geotech Engineering Limited’s conduct in and contribution to the Accident following the panel of enquiry conducted by the Development Bureau, the Development Bureau has recommended, and Geotech Engineering Limited accepted that, among others, Geotech Engineering Limited voluntarily refrained from tendering for public works contracts under the category of “Landslip preventive/ remedial works to slopes/ retaining walls” for a period of eight months with effect from and including 4 August 2021 (the “**Voluntary Refrainment**”). According to the Announcement, the board of directors of Geotech Holdings Ltd. considered that the Voluntary Refrainment of Geotech Engineering Limited may, to certain extent, affect Geotech Holdings Ltd. and its subsidiaries’ (the “**Geotech Group**”) short-term ability to undertake LPMitP projects from the public sector as a main contractor which represents one of Geotech Group’s major revenue segments.

Our Directors consider that the operational and financial impact of the Voluntary Refrainment of Geotech Engineering Limited on us is limited based on the following reasons:

- (i) Despite the Voluntary Refrainment of Geotech Engineering Limited, we can continue to pursue new public sector projects by directly tendering for public sector projects as main contractor with the Government. In June 2020, A-City Workshop has successfully applied for registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Since then, we are eligible to tender for those Government contracts which impose specific requirements for the main contractor and/or subcontractor to be registered on the List of Approved Specialist Contractors. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have submitted tenders for 26 projects, including one public sector project as main contractor with the Government. Among the 26 tenders submitted, none of the tenders are attributable to Geotech Engineering Limited. In October 2021, we were awarded with a public sector project with estimated contract sum of HK\$160.0 million (i.e. O01) by Customer F. This demonstrates our capability to secure new projects in the public sector from other customers.
- (ii) As mentioned in the Announcement, the Voluntary Refrainment of Geotech Engineering Limited would not affect the operation of Geotech Group’s existing projects. Following the Voluntary Refrainment of Geotech Engineering Limited, we had not been informed by Geotech Engineering Limited of any project termination or suspension in respect of these ongoing projects.
- (iii) We have made consistent effort in expanding and diversifying our customer base. In May 2021, we were awarded with a project with estimated contract sum of HK\$60.0 million (i.e. Project O03) by a new customer, being a construction contractor.

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- (iv) As at the Latest Practicable Date, we have 20 ongoing projects with an aggregate of approximately HK\$454.7 million yet to be recognised as revenue after the Latest Practicable Date. Among these, four projects were awarded by Geotech Engineering Limited and approximately HK\$46.8 million was yet to be recognised as revenue after the Latest Practicable Date. As our backlog attributable to Geotech Engineering Limited represents only approximately 10.3% of our total backlog as at the Latest Practicable Date, our Directors consider that our reliance on Geotech Engineering Limited is within acceptable level and hence the impact of the Voluntary Refrainment of Geotech Engineering Limited on us is minimal.
- (v) We have not encountered any material difficulty in collecting our trade receivables from Geotech Engineering Limited. As at the Latest Practicable Date, all of our trade receivables attributable to Geotech Engineering Limited as at 30 June 2021 had been settled. Further, 95.1% of our unbilled revenue attributable to Geotech Engineering Limited as at 30 June 2021 had been certified and billed and all of these subsequently certified and billed amount had been settled. This demonstrated that recoverability of our receivables from Geotech Group has not been materially affected by the Voluntary Refrainment of Geotech Engineering Limited.
- (vi) Notwithstanding the Voluntary Refrainment of Geotech Engineering Limited, the backlog value of our Group had remained relatively stable. The value of our projects backlog as at the Latest Practicable Date was approximately HK\$454.7 million, as compared with our projects backlog as at 30 June 2021 (i.e. approximately HK\$408.9 million). Barring any unforeseen circumstances, the Voluntary Refrainment of Geotech Engineering Limited is expected to expire by early April 2022. Our Directors consider that the negative operational and financial impacts associated with the Voluntary Refrainment of Geotech Engineering Limited are minimal on us, taking into account the fact that: (a) our existing projects backlog is already sufficient to support our business and financial performance for at least the forthcoming financial year; (ii) we had continued actively pursuing tender opportunities with other customers as evidenced by the number of tender submission made by us subsequent to the Track Record Period; and (iii) we expect that we could receive tender invitations again from Geotech Engineering Limited for public sector projects following the expiry of the Voluntary Refrainment of Geotech Engineering Limited.

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Customer concentration

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the percentage of our total revenue attributable to our top customer amounted to approximately 31.1%, 34.7%, 34.7% and 37.5%, respectively. The percentage of our total revenue attributable to our top five customers combined amounted to approximately 98.5%, 97.9%, 98.0% and 95.6%, respectively for the same periods. Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

- We have made consistent effort in expanding and diversifying our customer base. The number of customers which generated revenue to us increased from seven in FY2018 to 12 for the six months ended 30 June 2021. In FY2020, we have enlarged our customer base in the private sector by establishing business relationship with a bank, a temple and three engineering companies.
- We were able to maintain our profitability as evidenced by the increase in our gross profit from approximately HK\$21.6 million in FY2018 to approximately HK\$33.4 million in FY2019 and further increased to approximately HK\$51.6 million in FY2020, while our top customer for each of the three financial years during the Track Record Period was different. This suggests that we did not place undue reliance on any particular one of them throughout the Track Record Period for revenue generation.
- According to the Industry Report, customer concentration is not uncommon in the industry and it is not uncommon for slope works contractors which mainly undertake public sector projects (such as our Group) to generate revenue from a limited number of customers. Our executive Directors consider that concentration among our major customers during the Track Record Period was mainly attributable to several sizeable projects, in terms of revenue contribution, undertaken by us. According to the Industry Report, it is an industry norm for a main contractor to contribute a significant amount of revenue of a slope work subcontractor when it awards two or more sizeable projects to such subcontractor. Hence customers of these sizeable projects would easily become our major customers.
- Three projects with total estimated contract sum of HK\$70.0 million were awarded to us in FY2018 by Geotech Engineering Limited, one of our new customers for FY2018. In FY2019, we have further enlarged our customers base and established business relationship with Customer F. Customer F awarded a project with estimated contract sum of HK\$20.0 million to our Group. In May 2021, we were awarded with a project with estimated contract sum of HK\$60.0 million (i.e. Project O03) by a new customer, being a construction contractor. This demonstrates our consistent effort in reducing our customer concentration and expanding our customer base.

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- We have successfully applied for registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls” in June 2020. Our probationary status as Approved Specialist Contractor has broadened the source of our projects as we could leverage such registration to tender for public sector projects (i) directly from the Government as a main contractor subject to the Tender Limit for Government Contracts; and (ii) in the role of subcontractor for those public sector projects which required the main contractors to engage slope works subcontractors who are registered Approved Specialist Contractor. Since we became a Probationary Contractor and up to the Latest Practicable Date, our Group has tendered for seven public sector projects directly from the Government as a main contractor and responded to two invitations from main contractors to submit tender for potential public sector projects which required the main contractor to engage slope works subcontractors who are registered as Approved Specialist Contractor. We consider that our registration as Approved Specialist Contractor is conducive to our efforts in diversifying our customer base as it enables us to directly work under different Government authorities and other new customers.

Top customers who were also our suppliers

During the course of our business, there may be occasions where our customers pay on our behalf for materials and other miscellaneous items such as site planning and surveying services, machinery rental and motor vehicle expenses required in our projects and subsequently deduct such payments when settling our service fees for the project. According to the Industry Report, it is common in the industry that a main contractor may pay on behalf of its subcontractors for certain expenses for a project. Such arrangement is generally known as “contra-charge arrangement” and the amounts involved are referred to as “contra-charge”. During the Track Record Period, we had contra-charge arrangements with our top customers, including Tai Kam Construction Engineering Company Limited, Fong On Construction Limited, Customer C, Customer D, Geotech Engineering Limited and Customer F. In this context, we regard such customers as our suppliers as well. Such contra-charge generally included purchase cost of materials and other miscellaneous items. Upon our request, our customers may purchase materials and arrange other miscellaneous items on our behalf and such amounts are subsequently settled under contra-charge arrangements. Effectively, the payments due to us from our customers under our projects will be settled after netting off such contra-charge amounts.

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our contra-charge incurred for the purchase of materials and other miscellaneous items from our top customers amounted to approximately HK\$12.9 million, HK\$30.2 million, HK\$34.4 million and HK\$9.6 million, representing approximately 14.4%, 20.1%, 15.3% and 7.7% of our cost of services for the corresponding year/period, respectively.

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The following table sets forth the information on our top customers from whom we had contra-charge arrangement with procurement amounts representing over 1.0% of our cost of services for any financial year/period during the Track Record Period (the “**Overlapping Customer/Suppliers**”):

	FY2018		FY2019		FY2020		Six months ended 30 June 2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Tai Kam Construction Engineering Company Limited								
Revenue derived and approximate % of our total revenue	34,578	31.1	3,141	1.7	663	0.2	531	0.3
Contra-charge amounts and approximate % of our costs of services	2,649	3.0	202	0.1	5	Negligible	–	–
Fong On Construction Limited								
Revenue derived and approximate % of our total revenue	33,770	30.4	63,842	34.7	25,558	9.3	954	0.6
Contra-charge amounts and approximate % of our costs of services	2,721	3.0	2,976	2.0	787	0.4	37	Negligible
Customer C								
Revenue derived and approximate % of our total revenue	28,556	25.7	49,946	27.2	59,339	21.5	42,945	27.7
Contra-charge amounts and approximate % of our costs of services	2,606	2.9	2,538	1.7	1,850	0.8	3,371	2.7
Geotech Engineering Limited								
Revenue derived and approximate % of our total revenue	5,380	4.8	45,007	24.5	95,703	34.7	58,017	37.5
Contra-charge amounts and approximate % of our costs of services	4,893	5.5	21,963	14.6	27,422	12.2	2,098	1.7

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	FY2018		FY2019		FY2020		Six months ended 30 June 2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Customer F								
Revenue derived and approximate % of our total revenue	-	-	18,043	9.8	78,018	28.3	37,461	24.2
Contra-charge amounts and approximate % of our costs of services	-	-	2,541	1.7	4,292	1.9	4,141	3.3

Contra-charge arrangement with Geotech Engineering Limited

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we incurred contra-charge of approximately HK\$4.9 million, HK\$22.0 million, HK\$27.4 million and HK\$2.1 million to Geotech Engineering Limited, representing approximately 90.9%, 48.8%, 28.7% and 3.6% of our revenue derived from Geotech Engineering Limited for the corresponding year. The percentage of contra-charge amounts incurred by our Group to Geotech Engineering Limited over the amount of revenue derived from Geotech Engineering Limited was relatively higher as compared to other customers of our Group during the Track Record Period, which was mainly attributable to the following reasons:

- (i) our Group has developed business relationship with Geotech Engineering Limited when they awarded a project to us in 2018 (i.e. Project #20). Project #20 was the only project undertaken by our Group for Geotech Engineering Limited in FY2018, thus the contra-charge amount of approximately HK\$4.9 million incurred by our Group to Geotech Engineering Limited was solely attributable to Project #20. Given we had had no prior business relationship with Geotech Engineering Limited, Geotech Engineering Limited had deployed its site planning and surveying personnel to demonstrate its quality control requirements and to inspect and assess whether our quality control procedures were in line with its internal practice for Project #20. The inspection aspects including our work quality, environmental management measures and occupational health and safety policies. The cost of such site planning and surveying works undertaken by the personnel deployed by Geotech Engineering Limited were chargeable to our Group on a back to back basis. Further, Geotech Engineering Limited has also requested us to use material procured from its designated suppliers in order to ensure the materials fulfil its quality standards. Since we had no prior business relationships with the designated suppliers of Geotech Engineering Limited, it was agreed that Geotech Engineering Limited would purchase, on our behalf, the necessary materials from its designated suppliers and deduct the purchase amount from its payment to us; and

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- (ii) Geotech Engineering Limited has continued to deploy its site planning and surveying personnel to conduct inspection on our project works and purchase materials on our behalf from its designated suppliers to ensure the quality of materials. Given (i) the number of projects undertaken by our Group for Geotech Engineering Limited increased from one (i.e. Project #20) for FY2018 to three for FY2019 and further increased to five for FY2020; and (ii) the revenue contributed from Geotech Engineering Limited's project increased from HK\$5.4 million for FY2018 to HK\$45.0 million for FY2019 and further increased to HK\$95.7 million for FY2020, the amount of contra-charge incurred by our Group to Geotech Engineering Limited has also increased correspondingly from approximately HK\$4.9 million for FY2018 to HK\$22.0 million for FY2019 and further increased to HK\$27.4 million for FY2020. During the Track Record Period, Geotech Engineering Limited has continued to deploy its site planning and surveying personnel to conduct inspection on our project works and purchase materials on our behalf from its designated suppliers to ensure the quality of materials; however, the proportion of site planning and surveying works requested by Geotech Engineering Limited had gradually decreased as we became more familiar with the quality control requirements of Geotech Engineering Limited. These had contributed to the decrease in the percentage of our contra-charge amounts incurred over the amount of revenue derived from Geotech Engineering Limited from approximately 90.9% for FY2018 to approximately 48.8% for FY2019, and further decreased to approximately 28.7% for FY2020.

Projects undertaken during the Track Record Period which involved contra-charge arrangement with our Overlapping Customers/Suppliers

The following table sets forth the information on our top projects undertaken during the Track Record Period which involved contra-charge arrangement with our Overlapping Customers/Suppliers:

Project No.	Customer	Gross profit margin during the Track Record Period %
#01	Customer C	14.1
#02	Geotech Engineering Limited	13.3
#03	Customer F	20.7
#04	Fong On Construction Limited	25.8
#05	Customer C	14.7
#06	Fong On Construction Limited	37.1 <i>Note 1</i>
#07	Geotech Engineering Limited	13.1
#08	Customer F	11.4
#09	Geotech Engineering Limited	9.6
#10	Customer F	15.4
#11	Tai Kam Construction Engineering Company Limited	22.1
#12	Geotech Engineering Limited	12.7

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Project No.	Customer	Gross profit margin during the Track Record Period %
#13	Geotech Engineering Limited	11.6
#14	Fong On Construction Limited	13.9
#15	Fong On Construction Limited	37.1 <i>Note 2</i>
#16	Tai Kam Construction Engineering Company Limited	25.3
#19	Fong On Construction Limited	14.5
#20	Geotech Engineering Limited	4.7 <i>Note 3</i>
#22	Tai Kam Construction Engineering Company Limited	19.9
#24	Customer C	32.0
#26	Customer F	22.8
#27	Customer C	10.1
#28	Geotech Engineering Limited	10.7
#29	Customer F	15.7

Notes:

1. Our Group recorded a higher gross profit margin for Project #06 that involve slope works performed at the Peak. Project #06 involved slope works to be performed by us during specified timeframes in order to accommodate the traffic arrangements of the Peak Tram during the contract period. In our project planning, our Group had to prepare for additional resources to meet the relatively tight project schedule to ensure the normal operation and/or resumption of the Peak Tram services in a timely manner. Considering the aforesaid, our Group had factored in a relatively higher profit margin when determining the price for the project.
2. Our Group recorded a higher gross profit margin for Project #15 because we were required to provide design-and-build services such as slope upgrading and slope remedial works for Project #15. The preparation of slope works design was part of our value-added services which involved advanced technical know-how and were handled by our executive Directors, who have been registered as Registered Professional Engineers. Considering the aforesaid, our Group had factored in a relatively higher profit margin when determining the price for the project.
3. Our Group recorded a lower gross profit margin for Project #20 because we incurred substantial contra-charge for Project #20. For further details, please refer to the paragraph headed “Contra-charge arrangement with Geotech Engineering Limited” above in this section.

PRICING STRATEGY

We normally charge our customers based on actual work done according to the bill of quantities set out in the contract. Our pricing is generally determined based on certain mark-up over our estimated costs. We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs would not exceed our estimation during the performance of our projects. Please refer to the paragraph headed “Risk factors – Any significant cost overruns may materially and adversely affect our business operation and financial performance” in this listing document for further details of the associated risks in this regard. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we did not experience any loss-making projects as a result of material inaccurate estimation or cost overruns.

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In order to minimise the risk of inaccurate estimate and cost overrun, the pricing of our services is overseen by our management team, whose background and experience are disclosed in the section headed “Directors and senior management” in this listing document, based on our pricing strategy described in the following paragraphs.

Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions.

We prepare our tender price based on a certain percentage of mark-up over our estimated cost. The percentage of mark-up may vary substantially from project to project due to factors such as (i) the size and duration of the project; (ii) business relationship with the customer; (iii) credit history and financial track record of the customer; (iv) the prospect of obtaining future contracts from the customer; (v) any possible positive effect of our Group’s reputation in the slope works industry; (vi) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components; and (vii) the general market condition.

SALES AND MARKETING

During the Track Record Period, we secured new business mainly through direct invitations for tender by customers. On some occasions, we have approached the construction contractors which might have tendered for certain public sector projects we identified on gazettes or Government websites and discussed with them on the prospects of subcontracting the relevant works to us. In June 2020, A-City Workshop has successfully applied for registration as a Probationary Contractor on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Since then, we are eligible to tender for those Government contracts which impose specific requirements for the main contractor and/or subcontractor to be registered on the List of Approved Specialist Contractors.

Since we became an Approved Specialist Contractor, we were invited by a construction contractor to submit tender and enter into Pre-Bid Agreements. Based on the tender notice of the main contract for these public sector projects, where the main contractor intends to subcontract the slope works involved, it is required to engage slope works subcontractors who are registered as an Approved Specialist Contractor under the category of “Landslip preventive/remedial works to slopes/retaining walls”. Pursuant to the Pre-Bid Agreements, in case the potential new customer is awarded with the relevant projects as a main contractor, it will engage us as a subcontractor by entering into formal subcontracts with us and our Group will carry out the subcontracted works according to our tender submission.

Our management team would also monitor the gazettes and different Government websites for new and upcoming slope works projects and explore potential opportunities with the relevant Government authorities or their main contractors.

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We do not rely heavily on marketing activities as our executive Directors consider that:

- (i) due to our proven track record and our relationship with our existing customers, we are able to leverage our existing customer base and our reputation in the slope works industry in Hong Kong. As such, we generally focus on liaising with existing and potential customers from time to time for relationship building and management; and
- (ii) in respect of our tenders submitted directly to the Government, such Government projects are normally awarded through open tendering procedures. Hence, we should maintain our registration as an Approved Specialist Contractor so as to be eligible to tender for public sector projects as main contractor.

Seasonality

Our Directors believe that the slope works industry in Hong Kong does not exhibit any significant seasonality as slope works projects take place throughout the year in Hong Kong based on the experience of our Directors.

OUR SUPPLIERS

Characteristics of 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) subcontractors; (ii) suppliers of materials; and (iii) suppliers of other miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. During the Track Record Period, our suppliers were located in Hong Kong and our purchases were denominated in Hong Kong dollars. Our suppliers generally grant us a credit term of 0 to 45 days. We have not adopted any “pay when paid” policy with our suppliers.

The following table sets forth a breakdown of our total purchase during the Track Record Period by type of suppliers:

	FY2018		FY2019		FY2020		For the six months ended 30 June			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	2020 HK\$'000	%	2021 HK\$'000	%
	(Unaudited)									
Subcontracting services	24,820	44.0	43,248	42.3	61,163	40.8	28,887	42.2	36,546	41.0
Materials	15,781	27.9	24,158	23.6	46,165	30.8	21,946	32.0	32,844	36.9
Other services ^(Note)	15,862	28.1	34,742	34.1	42,566	28.4	17,658	25.8	19,646	22.1
Total	56,463	100.0	102,148	100.0	149,894	100.0	68,491	100.0	89,036	100.0

Note: These miscellaneous services mainly included site planning and surveying services, motor vehicle expenses and machinery rental services.

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Please refer to the paragraph headed “Financial information – Principal components of results of operation – Cost of services” in this listing document for a discussion of the fluctuation in our purchases from our suppliers during the Track Record Period as shown in the above table as well as the relevant sensitivity analyses in this connection. During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required.

We may obtain quotations from our suppliers in making our cost estimation during the tender phase. We will contact the suppliers that we have obtained quotations from during the tender phase, and may further negotiate on the pricing and contract terms with them after we are awarded with the projects. Our Directors consider that we are generally able to pass on any substantial increase in purchase costs to our customers because (i) we generally take into account our overall cost of providing our services to customers when determining our pricing; and (ii) we are generally entitled to adjust our service fees regularly as stipulated in the contracts of our public sector projects with reference to the overall inflation level according to official statistics of the Government.

Principal terms of engagement

Subcontractors

Depending on the availability of our labour resources and the types of specialised works involved, we may subcontract part of the works involved in sizeable projects to subcontractors, especially when our Group is concurrently occupied with a number of sizeable projects. Further, given slope works projects generally involve multiple types of works, it may sometimes be more cost efficient for us to subcontract certain types of specialised works to our subcontractors, taking into account the volume and the proportion of specialised works generally required in our projects as well as the cost of maintaining our own workers for carrying out such works. During the Track Record Period, we engaged our subcontractors mainly for performing soil nail works, shotcreting works and landscape works.

We engage our subcontractors on a project-by-project basis. We have not committed to any minimum purchase amount with our subcontractors. The salient terms included in our subcontracting agreements are summarised as follows:

Scope of services

The subcontracting agreement generally sets out the scope of services to be provided by our subcontractors. We require our subcontractors to complete the subcontracted works according to our customers’ specifications, drawings and requirements.

Subcontracting expenses

The contracts with our subcontractors are mainly on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates of each item set out in the bill of quantities and the actual quantities of work done.

BUSINESS

Defect liability period

Our subcontractors shall be responsible for rectifying works defects arising from works subcontracted to them at their own expenses for 12 months following the completion of the relevant subcontracted works.

Payment arrangements

Our subcontractors are required to submit monthly progress claim to us setting out the details of the completed work on a monthly basis.

Materials, machinery and equipment

Depending on the contract terms with our subcontractors, materials are generally (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. We generally require our subcontractors to provide and arrange for the necessary machinery and equipment to be used in their works at their own costs.

Safety and prohibition of illegal workers

Our subcontractors are required to carry out the subcontracted works in accordance with the relevant laws and regulations. Our subcontractors are also prohibited from hiring illegal workers. In the event of any non-compliance, the relevant subcontractor shall indemnify our Group against any action, loss, damages arising from such non-compliance.

Indemnity and termination

Subcontractors are required to indemnify our Group against any loss, expense or claim arising from the failure to comply with subcontracting agreement by the subcontractor and/or its employees. We are entitled to hold our subcontractors liable for any loss and damage suffered by our Group if their works are not performed in accordance with our requirements. We are also entitled to terminate the work order in the event of breach of contract by our subcontractor.

Suppliers of materials

We engage our materials suppliers on a project-by-project basis. We have not committed to any minimum purchase amount with our suppliers of materials. Our purchase orders generally specify the volume, delivery date, product specification and types of materials we required. The purchased materials are generally delivered directly to the project sites. Alternatively, we may arrange for the transportation of the purchased materials on our own account.

The major types of materials sourced from our materials suppliers included cement and concrete, steel reinforcement and landscape materials. We typically arrange sample inspection on the materials upon their arrival. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Depending on our

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customers' requirements, quality inspection/testing may be conducted by third party professionals for certain kinds of materials to be used in our projects. Any materials that fail to comply with the specifications or standards provided in the purchase order will be returned to the materials suppliers for replacement. Our materials suppliers charge us based on the total quantity of our purchase.

Suppliers of miscellaneous services

We also procure services from suppliers of miscellaneous services such as site planning and surveying services, motor vehicle expenses and machinery rental services. Our purchase orders generally specify the scope of services required and delivery date. We have not committed to any minimum purchase amount with our suppliers of miscellaneous services.

Top suppliers

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total purchases from our top supplier amounted to approximately HK\$4.9 million, HK\$22.0 million, HK\$39.0 million and HK\$28.1 million, representing approximately 8.7%, 21.5%, 26.0% and 31.6% of our total purchases in the relevant year/period, respectively. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the total purchases from our top five suppliers amounted to approximately HK\$18.5 million, HK\$57.6 million, HK\$91.7 million and HK\$52.9 million, representing approximately 32.8%, 56.3%, 61.2% and 59.4% of our total purchases in the relevant year/period, respectively. The following tables set out information of our top five suppliers for FY2018, FY2019, FY2020 and the six months ended 30 June 2021:

FY2018

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Mainly supply of materials, site planning and surveying services, motor vehicle expenses and machinery rental	Since 2018	(Note 1)	4,893	8.7
2	Supplier B (Note 2)	A company engaged in, among others, landscaping works in Hong Kong	Mainly subcontracting of slope works	Since 2013	30 days; by cheque	3,811	6.8

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Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
3	Supplier C <i>(Note 3)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	3,567	6.3
4	Supplier D <i>(Note 4)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2015	45 days; by cheque	3,355	5.9
5	Supplier E <i>(Note 5)</i>	A company engaged in, supplying building and construction materials in Hong Kong	Mainly supply of steel reinforcement	Since 2015	30 days; by cheque	2,895	5.1
				Top five suppliers combined		18,521	32.8
				All other suppliers		<u>37,942</u>	<u>67.2</u>
				Total purchases		<u><u>56,463</u></u>	<u><u>100.0</u></u>

Notes:

1. Geotech Engineering Limited was one of our top customers during the Track Record Period. Geotech Engineering Limited was also one of our top suppliers for FY2018 as a result of our contra-charge arrangement with Geotech Engineering Limited. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers" above in this section.
2. Supplier B was established in 2002 and it mainly engaged in landscape softworks, hydroseeding works, landscape maintenance works, landscape survey and specialised tree works in the public sector.
3. Supplier C was established in 2007 and it mainly engaged in geotechnical works.
4. Supplier D was established in 1993 and it mainly engaged in geotechnical works.
5. Supplier E was established in 2007 and its products mainly include metal wires, steel and metal mesh.

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FY2019

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Mainly supply of materials, site planning and surveying services, motor vehicle expenses and machinery rental	Since 2018	(Note 1)	21,963	21.5
2	Supplier F (Note 2)	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	10,968	10.7
3	Supplier D (Note 3)	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2015	45 days; by cheque	10,958	10.7
4	Supplier G (Note 4)	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	8,507	8.3
5	Supplier H (Note 5)	A company engaged in among others construction works in Hong Kong	Mainly subcontracting of slope works	Since 2018	45 days; by cheque	5,197	5.1
Top five suppliers combined						57,593	56.3
All other suppliers						44,555	43.7
Total purchases						<u>102,148</u>	<u>100.0</u>

Notes:

- Geotech Engineering Limited was one of our top customers during the Track Record Period. Geotech Engineering Limited was also one of our top suppliers for FY2019 as a result of our contra-charge arrangement with Geotech Engineering Limited. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers" above in this section.
- Supplier F was established in 1997 and it mainly engaged in the provision of geotechnical and civil engineering works.
- Supplier D was established in 1993 and it mainly engaged in geotechnical works.
- Supplier G was established in 2014 and it mainly engaged in geotechnical works and ground investigation works.
- Supplier H was established in 2014 and it mainly engaged in steelworks and metal works.

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FY2020

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Supplier G <i>(Note 1)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	39,048	26.0
2	Geotech Engineering Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking slope works and ground investigation field works in Hong Kong	Mainly supply of materials, site planning and surveying services, motor vehicle expenses and machinery rental	Since 2018	<i>(Note 2)</i>	27,422	18.3
3	Supplier F <i>(Note 3)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	12,675	8.5
4	Supplier I <i>(Note 4)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2020	45 days; by cheque	6,554	4.4
5	Supplier J <i>(Note 5)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	6,031	4.0
				Top five suppliers combined		91,730	61.2
				All other suppliers		<u>58,164</u>	<u>38.8</u>
				Total purchases		<u><u>149,894</u></u>	<u><u>100.0</u></u>

Notes:

- Supplier G was established in 2014 and it mainly engaged in geotechnical works and ground investigation works.
- Geotech Engineering Limited was one of our top customers during the Track Record Period. Geotech Engineering Limited was also one of our top suppliers for FY2020 as a result of our contra-charge arrangement with Geotech Engineering Limited. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers" above in this section.
- Supplier F was established in 1997 and it mainly engaged in the provision of geotechnical and civil engineering works in Hong Kong.
- Supplier I was established in 2015 and it mainly engaged in geotechnical works.
- Supplier J was established in 2019 and mainly engaged in geotechnical works.

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Six months ended 30 June 2021

Rank	Supplier	Principal business activities	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						HK\$'000	%
1	Supplier G <i>(Note 1)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works, supply of materials, motor vehicle expenses and machinery rental	Since 2019	45 days; by cheque	28,132	31.6
2	Supplier J <i>(Note 2)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	9,372	10.5
3	Supplier F <i>(Note 3)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2019	45 days; by cheque	6,524	7.3
4	Supplier I <i>(Note 4)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2020	45 days; by cheque	4,725	5.3
5	Supplier C <i>(Note 5)</i>	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	4,144	4.7
Top five suppliers combined						52,897	59.4
All other suppliers						<u>36,139</u>	<u>40.6</u>
Total purchases						<u><u>89,036</u></u>	<u><u>100.0</u></u>

Notes:

- Supplier G was established in 2014 and it mainly engaged in geotechnical works and ground investigation works. During the six months ended 30 June 2021, we engaged Supplier G to provide subcontracting services, supply materials and provide other services to us, resulting in subcontracting charges, material charges and other charges incurred by us of approximately HK\$14.1 million, HK\$10.2 million and HK\$3.8 million, respectively.
- Supplier J was established in 2019 and mainly engaged in geotechnical works.

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3. Supplier F was established in 1997 and it mainly engaged in the provision of geotechnical and civil engineering works in Hong Kong.
4. Supplier I was established in 2015 and it mainly engaged in geotechnical works.
5. Supplier C was established in 2007 and it mainly engaged in geotechnical works.

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the top five suppliers of our Group during the Track Record Period.

We are unable to disclose the identities of our top suppliers. For further details, please refer to the paragraph headed “Our customers – Non-disclosure of the identities of our top customers and top suppliers” above in this section.

Reasons for subcontracting arrangement

Our Directors confirm that subcontracting of works is in line with normal market practice in the Hong Kong slope works industry. During times when our labour resources are tight and depending on the types of specialised works involved, we may subcontract some of our works to other subcontractors, taking into account the availability of our labour resources and the schedule of works.

Basis of selecting our suppliers

Selection of subcontractors

We evaluate subcontractors taking into account their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Based on these factors, we maintain an internal list of approved subcontractors which is updated on a continuous basis. As at 30 June 2021, there were more than 35 approved subcontractors on our internal list. When subcontracting services are required for a project, we typically obtain quotations from different suitable subcontractors for comparison and select our subcontractors based on their experience relevant to the particular project as well as their availability and fee quotations.

Selection of materials suppliers

We generally purchase materials from our internal list of approved materials suppliers. In selecting our suppliers of materials, we take into account various factors, including pricing, quality of material supplied, timeliness of delivery and ability to comply with our requirements and specifications. We maintain an internal list of approved suppliers which is updated on a continuous basis. As at 30 June 2021, there were more than 70 approved suppliers on our internal list of approved suppliers.

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Control over subcontractors

We remain accountable to our customers for the performance and quality of work rendered by our subcontractors. In general, works performed by our subcontractors are inspected and monitored by our project management team based on our quality management system, environmental management system and occupational health and safety management system which are in conformity with the requirements of ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards respectively.

We have implemented the following measures to monitor the quality and progress of works outsourced to our subcontractors so as to ensure the compliance with our contract specifications:

- (i) our project management team conducts regular meetings with subcontractors' responsible personnel to review their performance and resolve any issues encountered in the course of their works;
- (ii) our project management team reviews the works performed by our subcontractors on a continual basis during project implementation based on our quality control manual. We assess the performance of our subcontractors based on their (i) ability to meet delivery schedules; (ii) response to instructions; (iii) ability to honour the defect liability period; (iv) management commitment; (v) quality of services; and (vi) cost competitiveness;
- (iii) our subcontractors are required to follow our guidelines and instructions on workplace safety. Our project management team will closely monitor the on-site safety performance of our subcontractors; and
- (iv) we require our subcontractors to submit progress report to us on a regular basis.

QUALITY CONTROL

We believe that our commitment to quality services is crucial to our reputation and continual success. We place strong emphasis on service quality by implementing a comprehensive quality control system. A-City Workshop obtained certification certifying its quality management to be in conformance with the requirements of ISO 9001:2015 standard. In conformity with the ISO 9001:2015 standards, our Group has developed and implemented a quality manual which stipulates procedures and control in relation to quality management system, proper filing, communication with customers, revision on quality manual and procedures, employees' training, internal and external audits, evaluation and procurement of materials and subcontracting services and non-conforming works management.

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The quality control measures adopted by our Group include the followings:

Collecting feedbacks from customers

Our executive Directors and senior management team regularly communicate with and conduct site visits to collect feedbacks from our customers. We would follow up and respond to the feedbacks from our customers in a timely manner with a view to maintain and continually improve our service standard. Throughout the project implementation, we may be invited to attend progress meetings held by our customers from time to time to resolve any issues identified in the projects.

Designation of project management team

A project management team is assigned for every project based on the project nature and the relevant qualifications and experiences required. The project management team is headed by the project manager/site agent who is responsible for the overall management of the project, including liaising and communicating with our customers, coordinating and providing guidance to the other team members, overseeing the progress, budget and quality of services rendered. Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project. After the review and endorsement by our project manager/site agent, the monthly progress reports will then be submitted to our customers for record.

Procurement of materials

Our Group maintains an approved list of suppliers which is updated on a regular basis. We typically arrange sample inspection on the materials upon their arrival. Please refer to the paragraph headed "Our suppliers – Basis of selecting suppliers – Selection of materials suppliers" for our procurement policies of materials. We have from time to time required our suppliers to provide us with certificates for the materials supplied to us. Our suppliers are responsible for replacing any materials which do not meet the relevant specifications or standards and any associated costs incurred.

Works performed by subcontractors

Our Group maintains an approved list of subcontractors which is updated on a regular basis. We selected our subcontractors based on their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Please refer to the paragraph headed "Our suppliers – Basis of selecting suppliers – Selection of subcontractors" above in this section for further details in this regard.

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INVENTORY

Materials are procured by us on a project-by-project basis to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventories during the Track Record Period.

MACHINERY AND MOTOR VEHICLES

We possess certain machinery and motor vehicles for use in our operation. Our owned machinery and motor vehicles mainly include:

(i)



Air compressor is mainly used for removing the excavated material by air lifting method from drilling and shotcreting operations

(ii)



Crane truck is mainly used for lifting and moving heavy materials

(iii)



Excavator is mainly used for performing excavation works

(iv)



Generator is mainly used for generating electricity

(v)



Motor vehicle is mainly used for transporting our project management staff and site workers between different work sites

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In addition, as at the Latest Practicable Date, we possessed various types of site equipment to facilitate our operations, mainly including drilling rigs, grout pumps, shotcrete machine and pneumatic drill.

The following table sets out the details of our major types of machinery:

	Age as at the Latest Practicable Date	Remaining useful lives as at the Latest Practicable Date	As at 31 December 2018 <i>No. of units</i>	As at 31 December 2019 <i>No. of units</i>	As at 31 December 2020 <i>No. of units</i>	As at 30 June 2021 <i>No. of units</i>	As at the Latest Practicable Date <i>No. of units</i>
Air compressor	1-5 years	0-4 years	2	2	6	6	6
Crane truck	1-4 years	1-4 years	1	1	2	2	2
Excavator	4 years	1 year	1	1	1	1	1
Generator	2 year	3 years	–	2	2	2	2
Motor vehicle	0-4 years	0-3 years	12	14	16	16	16
Total			<u>16</u>	<u>20</u>	<u>27</u>	<u>27</u>	<u>27</u>

As at the Latest Practicable Date, our Group owned eight Regulated Machines, mainly including air compressor and generator, which are subject to the NRMM Regulation. For further details, please refer to the paragraph headed “Regulatory overview – Environmental protection – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)”.

We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. During the Track Record Period, we have also leased certain machinery and equipment such as generators and air compressors from our customers or rental service providers for the use in our slope works, where necessary. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, machinery and equipment rental costs incurred by us amounted to approximately HK\$2.1 million, HK\$3.8 million, HK\$5.7 million and HK\$5.8 million, respectively.

Safe keeping of machinery

Our machinery is generally stored at the construction sites of our ongoing projects from time to time unless the relevant machinery was under repair and maintenance.

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Repair and maintenance

We continuously monitor the operating conditions of our owned machinery and motor vehicles, based on which we make repair and maintenance decisions on an ongoing basis. Repair and maintenance works are carried out by external mechanics engaged by us as needed. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we incurred repair and maintenance expenses for our machinery and motor vehicles of approximately HK\$0.3 million, HK\$0.3 million, HK\$0.5 million and HK\$0.1 million, respectively.

INSURANCE

We undertook projects mainly in the role of subcontractor during the Track Record Period. Our Directors confirmed that our slope works were covered by the employees' compensation insurance, third party liability insurance and contractor's all risks insurance taken out by the main contractor for the entire construction project. On occasion, we may be required to reimburse our customer for the insurance taken out by them or take out insurance on behalf of our customers. Subject to the agreements between our customers and our Group, insurance may be taken out by our customers on their own for their motor vehicles deployed for the projects at their costs or arranged by us on their behalf upon their requests at our costs. Such insurance policies covered and protected all employees of main contractors and subcontractors of all tiers working in the relevant construction site and works performed by them in the relevant construction site. In respect of those projects that we undertook as main contractor during the Track Record Period, it was generally our responsibility to take out the aforesaid types of insurance policies for the projects on our own.

Our Group has also maintained employees' compensation insurance for our Directors and employees at our office. In addition, we have taken out third-party liability insurance regarding the use of our motor vehicles. After the GEM Listing, we have also taken out directors and officers liability insurance for our Directors.

Our Directors consider that our insurance coverage is adequate and consistent with the industry norm having regard to our current operations and the prevailing industry practice. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, our total insurance premiums incurred were approximately HK\$0.1 million, HK\$1.1 million, HK\$1.5 million and HK\$0.9 million, respectively. The increase in insurance premium in FY2019 and FY2020 was mainly attributable to (i) we were requested by Geotech Engineering Limited in Project #09 to take out employees' compensation insurance and contractor's all risks insurance at our cost in FY2019, which amounted to approximately HK\$0.8 million; and (ii) we were requested by Customer C in Project #24 to take out third party insurance, professional indemnity insurance and employees' compensation insurance at our cost in FY2020, which amounted to approximately HK\$1.3 million.

Uninsured risks

Certain risks disclosed in the "Risk factors" section of this listing document, such as risks in relation to our ability to obtain new contracts, our ability to retain and attract personnel, credit risk and liquidity risk, are generally not covered by insurance because they

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are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed “Risk management and internal control systems” below in this section for further details regarding how our Group manages certain uninsured risks.

EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had a total of 232 employees. All our employees were stationed in Hong Kong. The following table sets out a breakdown of our employees by function:

	As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021	As at the Latest Practicable Date
General management	2	5	5	5	6
Project management	15	18	24	24	24
Finance and administration	2	3	3	3	3
Full-time site workers	<u>67</u>	<u>172</u>	<u>197</u>	<u>198</u>	<u>199</u>
	<u>86</u>	<u>198</u>	<u>229</u>	<u>230</u>	<u>232</u>

Training and recruitment policies

We generally recruit our employees from the open market. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and determines whether additional personnel is required to cope with our business development from time to time.

We provide various types of training to our employees and sponsor our employees to attend various training courses covering areas such as technical knowledge relating to the carrying out of slope works, safety, first aids, and environmental matters. Such training courses include our internal trainings as well as courses organised by external parties such as the Construction Industry Council, the Occupational Safety and Health Council, and other training providers. Employees carrying out construction works at construction sites are generally required to be registered pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong), which imposes certain training requirements on workers prior to registration, details of which are set out in the paragraph headed “Regulatory overview – Labour, health and safety – Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong)” in this listing document.

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Staff costs and remuneration policy

In general, our Group determines employees' salaries based on their qualifications, position and seniority. In order to attract and retain valuable employees, our Group reviews the performance of our employees annually which will be taken into account in annual salary review and promotion appraisal.

Our Group incurred staff costs (including directors' emoluments, and salaries, wages and other benefits) of approximately HK\$34.3 million, HK\$50.4 million, HK\$77.9 million and HK\$38.4 million for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively.

Employee relationship

Our Directors believe that we have maintained a good relationship with our employees. We have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor have we experienced any material difficulties in the recruitment and retention of experienced core staff or skilled personnel during the Track Record Period. There has not been any trade union set up for our employees.

LICENCES AND REGISTRATIONS

Our Group holds a number of licences and registrations which enable us to carry on our business. The following table sets out the details of the licences and registrations of A-City Workshop as at the Latest Practicable Date:

Relevant authority/ organisation	Registration and qualification	Category	Date of expiry
Buildings Department	Registered General Building Contractor	General building works	27 April 2023
Buildings Department	Registered Specialist Contractor	Site formation works	19 May 2023
Construction Industry Council	Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme)	Reinforcement bar fixing (Group 1), concreting formwork (Group 1) and concreting (Group 1), earth work and geotechnical works	6 February 2024
Development Bureau	Probationary Contractor on the List of Approved Specialist Contractors for Public Works	Landslip preventive/ remedial works to slopes/ retaining walls	N/A

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Our Directors are of the view that our aforesaid licences and registrations are adequate for our business needs. Our Directors confirm that our operating subsidiary, A-City Workshop, has obtained all necessary licences, permits and registrations which are required to carry on our principal business activities in Hong Kong as at the Latest Practicable Date. As advised by the Legal Counsel, we are not required to register at the Group level for the aforesaid licences and there was no material legal impediment in the renewal of the above licences and registrations by our Group as at the Latest Practicable Date.

ENVIRONMENTAL COMPLIANCE

Our Group's operations are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to waste disposal, air pollution control and noise control during the Track Record Period. For details of the regulatory requirements, please refer to the paragraph headed "Regulatory overview – Environmental protection" in this listing document.

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in conformance with ISO 14001:2015 international standard. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Some of our owned machinery (mainly including air compressors and generators) as at the Latest Practicable Date are subject to the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong). For details, please refer to the paragraph headed "Regulatory overview – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)" in this listing document.

During the Track Record Period, our Group has mainly undertaken slope works projects in the role of subcontractor and generally it is the responsibility of the main contractors to facilitate the waste disposal arrangements in relation to the slope works. In those projects that we act as the main contractor, we would be responsible for the disposal of construction waste to the prescribed facilities under our registration with the Environmental Protection Department.

For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we incurred approximately HK\$0.3 million, HK\$0.3 million, HK\$0.6 million and HK\$0.1 million, respectively, directly in relation to the compliance with applicable environmental requirements. Such amounts mainly included costs in relation to wastes disposal. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation and affected by our agreements with customers and subcontractors as to the party responsible for bearing the relevant costs from project to project.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements that resulted in prosecution, conviction or penalty being brought against us.

OCCUPATIONAL HEALTH AND WORK SAFETY

Our Group places emphasis on occupational health and work safety. In 2018, we have established an occupational health and safety management system which is certified to be in compliance with OHSAS 18001:2007 standard in order to provide our employees with a safe and healthy working environment. In 2020, our occupational and safety management system was certified to be in compliance with ISO 45001:2018 standard.

Our project management team is responsible for overseeing the implementation of our occupational health and safety policies and to ensure that we comply with applicable occupational health and safety standards. Our Group has put in place an internal safety manual which is reviewed from time to time to incorporate the best practices and to address and improve specific areas of our safety management system. We require our employees and our subcontractors' employees to follow our workplace safety rules as set out in the safety manual. Our workplace and safety rules identify common safety and health hazards and recommendations on prevention of workplace accidents. We also provide suitable personal protective equipment such as safety helmet and safety boots to our employees based on the type of works undertaken by them.

Our safety officers/supervisors regularly provide guidance to our workers and subcontractors on correct and safe working practices. Subcontractors which failed to rectify their breaches upon our requests will be removed from our internal approved list of subcontractors. We also hold regular meetings with our subcontractors to discuss on the implementation of safety measures and follow up with any safety issues identified during the course of project implementation.

In response to the outbreak of COVID-19 in Hong Kong, we have implemented the following hygiene and safety related measures:

- requesting staff and workers to wear surgical masks both at office and works sites;
- requesting staff and workers to present negative COVID-19 test results conducted within the past 14 days when entering the works site;
- monitoring the stock of personal protective equipment (including but not limited to surgical masks and hand sanitiser) for our employees;
- conducting mandatory body temperature check before entering works sites and random body temperature check at works sites during the day;
- requesting staff and workers to maintain personal hygiene and those who have respiratory symptoms shall be refrained from working and be asked to seek medical advice promptly;
- requesting staff and workers not to travel to those areas severely affected by COVID-19 unless necessary, and those who return from the affected areas shall be quarantined for 14 days and be asked to fill in the health check form;

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- placing health educational materials on COVID-19 at prominent areas of our office and works sites; and
- if any staff or workers are requested by the Department of Health to be quarantined or have been confirmed to have contracted COVID-19, their respective department or project management team will be informed and requested to keep on record. The affected staff or worker (the “**Affected Personnel**”) will be refrained from working immediately and any other staff or workers who has close contact with the Affected Personnel shall also be quarantined for 14 days.

Impact of the outbreak of COVID-19 on our operations

Based on information available as at the date of this listing document, our executive Directors consider that the outbreak of COVID-19 did not result in any material impact on our Group’s operation and financial performance or material adverse change to our expansion plan based on the following factors:

- we had not experienced any significant project delay and/or cancellation of work orders from our customers;
- we had not experienced any material delay in the settlement of payment to us by our customers as a result of the outbreak of COVID-19;
- we had not experienced any material decline in the number of tender invitations received by us following the outbreak of COVID-19;
- as at the Latest Practicable Date, our Group had a total of 17 tenders which were still undergoing tender selection process and pending tender result. In respect of these 17 tenders, none of the customers have notified us that such projects had been cancelled or revoked;
- based on information publicly available and reasonable enquiries by our executive Directors, we are not aware of any suggestion or indication that our major customers suffered from material financial difficulties as a result of the outbreak of COVID-19;
- we had not experienced any material difficulties in making procurement of materials and/or subcontracting services;
- we had not experienced any material delay in delivery of materials and/or subcontracting services by our material suppliers and subcontractors;
- based on information publicly available and regular updates from our employees and subcontractors, none of our employees or our subcontractors’ employees involved in our projects had been tested positive for COVID-19;

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- there had not been any significant changes in the profit margin of our projects on hand or estimated profit margin of our potential projects following the outbreak of COVID-19;
- according to the Industry Report, the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong's slope works industry in the long run due to the fact that (i) as put forward in the Hong Kong 2021-2022 Budget by the Government, the financial provision on slope safety and geotechnical standards has increased from HK\$416.9 million to HK\$441.7 million during 2019 to 2021, representing a CAGR of approximately 2.9%. The programme is deployed with a view to exercising geotechnical control on private and public developments, register slopes, implement the LPMitP programme, provide landslide emergency service, investigate serious landslides, set geotechnical standards, undertake public education and advise private slope owners on slope safety. As such, the increasing financial and strategic effort dedicated by the Government is expected to propel the slope works industry; (ii) the Government has estimated the number of new slope features registered to reach 450 units in 2021, as compared to 440 units and 429 units for 2019 and 2020, respectively. The continuous registration of new slope is expected to underpin the growth of slope works industry; and (iii) the major construction projects in Hong Kong ranging from roads, housing shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected. For further details, please refer to the paragraph headed "Industry overview – Overview of Hong Kong slope works industry" in this listing document;
- the first confirmed case of COVID-19 in Hong Kong was reported in January 2020. There were rounds of outbreaks in Hong Kong during the periods of January, March, July to August and November to December in 2020. The number of confirmed cases has gradually decreased since January 2021. Taking into consideration (i) the gradual decrease in number of confirmed cases since 2021; and (ii) the implementation of the COVID-19 vaccination programme since February 2021, our executive Directors consider that most of the adverse impact brought by the outbreak of COVID-19 should have been reflected in our business and financial performance for FY2020, if any. Notwithstanding the outbreak of COVID-19 in 2020, our Group was able to achieve business growth in FY2020 as evidenced by the significant increase in revenue from approximately HK\$183.9 million for FY2019 to approximately HK\$276.0 million for FY2020. Further, the value of our projects backlog as at the Latest Practicable Date of approximately HK\$454.7 million was significantly higher than our projects backlog as at each of 31 December 2018 (i.e. approximately HK\$155.5 million), 31 December 2019 (i.e. approximately HK\$159.3 million) and 31 December 2020 (i.e. approximately HK\$190.6 million), respectively; and

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- notwithstanding the outbreak of COVID-19 in 2020, our Group was able to implement our business expansion plans and utilise the net proceeds from the GEM Listing according to the timeline as set forth in the GEM Prospectus. Further, our Group was able to achieve our business strategies in (i) tendering for projects directly from the Government as we had leveraged our registration as an Approved Specialist Contractor and tendered for three public sector projects as main contractor with the Lands Department, the CEDD and the Highways Department in 2020; and (ii) diversifying our customer base and expanding our market share which can be demonstrated by the increase in number of customers with revenue contribution to our Group from seven for FY2019 to ten for FY2020 and the increase in number of projects for which we submitted tenders from 21 for FY2019 to 27 for FY2020 as well as the increase in number of projects awarded to our Group from 11 for FY2019 to 16 for FY2020^(Note).

Handling and recording of workplace accidents

Our Group has a proper system in place for handling and recording work accidents during the Track Record Period and up to the Latest Practicable Date. Set out below is our general procedures for handling and recording work accidents:

- Upon occurrence of an accident, we require the injured worker or person who witnessed the accident to report to our safety officer/supervisor about the details of the accident on a timely basis, including the venue, time, cause of injury, etc.
- Our safety officer/supervisor will prepare a notice of accident and send the notice of accident to the project manager/site agent and our administrative staff detailing the venue, date and time of the accident, name of the injured, details of the accident and injury and follow up action performed by the safety officer/supervisor after the occurrence of the accident. Our administrative staff maintains a master file for recording all details of injury cases.
- Our administrative staff will report the work injury case on time to our main contractor (if applicable), the Labour Department and the insurance company in accordance with the relevant requirements.

Note: The number of awarded projects for a financial year/period represents the number of projects awarded in respect of the tenders submitted during that financial year/period, irrespective of being awarded in the same financial year/period or subsequently.

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Workplace accidents during the Track Record Period

During the Track Record Period and up to the Latest Practicable Date, there were five accidents involving our employees and/or our subcontractors' employees which gave rise or may give rise to potential employees' compensation claims and/or common law personal injury claims. The following table sets out the nature of the aforesaid accidents occurred during the Track Record Period and up to the Latest Practicable Date:

No.	Date of accident	Details of the accident
1	14 November 2018	An employee of our subcontractor suffered right chest wall injury and rib fracture in a car accident when crossing road during work hours.
2	30 January 2019	An employee of our Group suffered injury to his left leg during work hours.
3	11 April 2019	An employee of our Group suffered injury to his left hand finger during work hours.
4	28 March 2020	An employee of our Group suffered injury to his back during work hours.
5	22 October 2020	An employee of our subcontractor suffered injury to his left shoulder and right knee during work hours.

For further details of the employees' compensation claims under the Employees' Compensation Ordinance and personal injuries claims under common law, please refer to the paragraph headed "Litigations and claims" below in this section. Save as disclosed above, our Group did not experience any significant incidents or accidents in relation to workers' safety during the Track Record Period and up to the Latest Practicable Date.

We have adopted the following safety measures to prevent the occurrence of similar accidents:

- increasing the frequency of safety inspection at all project sites to enhance safety monitoring. Safety inspection mainly focuses on monitoring the implementation of our safety guidelines, including wearing safety equipment such as safety helmet with chin strap, high visibility jacket, safety footwear, gloves, goggles, by our employees and subcontractors' employees;
- providing more specific tool box talk related to stacking and handling of material with display of prominent warning notices to alert workers of the key points for the activity;
- providing sponsorship for employees to attend seminars and training sessions with respect to safety and skills development;

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- taking notes of latest occurrences of similar and other industrial accidents (if any), and arranging sharing sessions with construction workers on the causes of the accidents and relevant precautionary measures to raise workers' safety awareness; and
- conducting emergency drill from time to time to maintain workers' safety awareness.

In particular, we have adopted the following safety measures to prevent the occurrence of certain types of accidents which are relatively common on construction sites:

Nature of accident	Safety control measures implemented
Personal injury in connection with worker being struck by moving vehicle	Our internal safety guidelines specify that our workers deployed either by us or by our subcontractors are reminded to be aware of the traffic condition and required to wear high visibility jackets when working beside live traffic.
Personal injury in connection with worker being injured while lifting or carrying heavy objects	Workers deployed either by us or by our subcontractors are required to strictly follow our internal safety guidelines while lifting and carrying heavy objects and are required to make use of all necessary equipment to complete their works.
Personal injury in connection with worker slipping, tripping or falling on the same level	Workers deployed either by us or by our subcontractors are required to strictly follow our Group's relevant safety procedure to put all objects and materials orderly in the specified location securing the tidiness of the work site. Workers are required to wear safety footwear and be aware of slippery floor.
Personal injury in connection with worker being struck by moving or falling object	Workers deployed either by us or by our subcontractors are required to strictly follow our Group's relevant safety procedure to wear protective gear at the work site.

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Analysis of accident rates

The following table sets out a comparison of the industrial accident rate per 1,000 workers and the industrial fatality rate per 1,000 workers in the construction industry in Hong Kong between our Group and the industry average during the Track Record Period:

	Industry average in Hong Kong ^(Note 1)	Our Group ^(Note 2)
From 1 January to 31 December 2018		
Accident rate per 1,000 workers	31.7	10.5 ^(Note 4)
Fatality rate per 1,000 workers	0.125	Nil
From 1 January to 31 December 2019		
Accident rate per 1,000 workers	29.0	6.1 ^(Note 4)
Fatality rate per 1,000 workers	0.157	Nil
From 1 January to 31 December 2020		
Accident rate per 1,000 workers	26.1	9.0 ^(Note 4)
Fatality rate per 1,000 workers	0.185	Nil
From 1 January to 30 June 2021		
Accident rate per 1,000 workers	N/A ^(Note 3)	Nil
Fatality rate per 1,000 workers	N/A ^(Note 3)	Nil

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No.21 (August 2021) published by Occupational Safety and Health Branch of the Labour Department.
2. Our Group's accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers in our Group's projects during the year/period.
3. The relevant data has not been published as at the Latest Practicable Date.
4. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

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The following table sets forth our Group's lost time injuries frequency rate ("LTIFR") during the Track Record Period:

	LTIFR <i>(Notes)</i>
For the year ended 31 December 2018	3.9
For the year ended 31 December 2019	2.3
For the year ended 31 December 2020	3.4
For the six months ended 30 June 2021	Nil

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries of our Group that occurred during the relevant year by 1,000,000 divided by the number of hours worked by site workers over the same year. It is assumed that the working hour of each worker is 9 hours per day.
2. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activity.

PROPERTY

As at the Latest Practicable Date, we did not own any property and we leased the following property in Hong Kong for our operations, details of which are set out as follows:

Address	Landlord	Usage	Key terms of tenancy
Unit 1A, 6/F, Harbour Crystal Centre, 100 Granville Road, Tsim Sha Tsui, Hong Kong	Independent third party	For general office use	Monthly rental of HK\$23,000 with tenancy period from 17 August 2020 to 16 August 2022

As at 30 June 2021, our Group had no single property with a carrying amount of 15% or more of our Group's total assets. On this basis, our Group is not required by Rule 5.01A of the Main Board Listing Rules to include any valuation report in this listing document.

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INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, our Group is the registered owner of a domain name and had registered a trademark in Hong Kong. For further information, please refer to the paragraph headed “Statutory and general information – B. Further information about the business of our Group – 2. Intellectual property rights” in Appendix IV to this listing document.

As at the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. As at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or against any members of our Group in relation to any material infringement of intellectual property rights of third parties.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, we were involved in five accidents involving our employees and/or our subcontractors’ employees which gave rise or may give rise to potential employee’s compensation claims and/or common law personal injury claims that were arisen during our usual and ordinary course of business, all of which were fully covered by insurance. Given that (i) the respective accidents occurred during the respective insured period, (ii) the relevant injured employees were engaged in the respective insured contracts at the material times, and were covered as insured as one of the employees engaged in the insured contract, and that (iii) there is nothing suggesting the contrary to the best knowledge of our Directors, our Directors take the view that the amount of such claims and/or potential claims shall be covered by the relevant insurance policy maintained by the relevant main contractors. Our Directors confirm that as at the Latest Practicable Date, save as disclosed under this paragraph headed “Litigations and claims” in this section, no member of our Group was engaged in any litigation or claim of material importance, and no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group.

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Settled claims in relation to workplace injury

During the Track Record Period and up to the Latest Practicable Date, A-City Workshop had settled the following claims in relation to workplace injury occurred in the aforesaid period:

No.	Nature of the claim	Particulars of the claim	Covered by insurance
1.	Employees' compensation claim	On 14 November 2018, an employee of our subcontractor suffered right chest wall injury and rib fracture in a car accident when crossing road during work hours.	Yes
2.	Employees' compensation claim	On 30 January 2019, an employee of our Group suffered from left leg fracture during work hours when he stumbled and fell down while he was clearing the debris on the construction site.	Yes
3.	Employees' compensation claim	On 28 March 2020, an employee of our Group sustained right shoulder and back contusion during work hours when he was struck by a falling steel tube at the back.	Yes

Potential claims in relation to employees' compensation claims and common law personal injury claims

Personal injuries suffered by our employees or by our subcontractors' employees as a result of accidents arising out of and in the course of their employment may lead to employees' compensation claims and common law personal injury claims brought by the injured worker against us:

- **Employees' compensation claims:** For information regarding the relevant laws in relation to employees' compensation claims, please refer to the paragraph headed "Regulatory overview – Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)" in this listing document.
- **Common law personal injury claims:** An injured employee may also pursue common law personal injury claim (in addition to employees' compensation claim) if he/she alleges that the injury is caused by the employer's negligence, breach of statutory duty, or other wrongful act or omission. Any damages awarded under common law personal injury claims are normally reduced by the value of the compensation paid or payable under the Employees' Compensation Ordinance. Under the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the time limit for an applicant to commence common law personal injury claim is three years from the date on which the cause of action accrued.

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Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for common law personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

As at the Latest Practicable Date, there were five workplace accidents resulting in injury to our employees and/or subcontractors' employees which may give rise to potential claims in relation to employees' compensation and/or common law personal injury claims against our Group, i.e. (a) the potential common law personal injury claim for the accident on 30 January 2019; (b) the potential common law personal injury claim for the accident on 11 April 2019; (c) the potential common law personal injury claim for the accident on 28 March 2020; and (d) the potential employees' compensation claim and the potential common law personal injury claim for the accident on 22 October 2020. For further details, please refer to the paragraph headed "Occupational health and work safety – Workplace accidents during the Track Record Period" above in this section.

The following table sets out a summary of the expiry of limitation period of the aforesaid workplace accidents:

Year	Number of potential employees' compensation claims which limitation period will expire	Number of potential common law personal injury claims which limitation period will expire
From the Latest Practicable Date to		
31 December		
2021	–	–
2022	1	2
2023	–	2

Since no court proceedings have commenced, the Legal Counsel is of the view that the likely quantum of such potential claims cannot be assessed at this moment. Our Directors take the view that the amount of such potential claims to be borne by our Group in the proceedings shall be covered by relevant insurance policy maintained by the relevant main contractor because such insurance policy covered and protected all employees of the main contractor and subcontractors of all tiers working in the relevant construction sites. Our Directors confirm that these accidents which give rise to such potential claims were caused during usual and ordinary course of our business, and have not caused disruption to our Group's business. As advised by the Legal Counsel, in view of the nature of injury suffered by the relevant employees, such accidents do not have any adverse impact on our Group to obtain and renew any licences or permits for our operation.

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No provision for litigation claims

Insurance policies have been taken out in compliance with applicable laws and regulations with a view to providing sufficient coverage for such work-related injuries for employees and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group's operations. For further details of our insurance policies, please refer to the paragraph headed "Insurance" in this section.

Regarding the potential claims, no provision was made in the financial statements of our Group having considered (i) the uncertainties as to whether such claims will be commenced; (ii) the coverage of insurance policy; and (iii) the uncertainties in the total amount that will be involved for such claims, if any.

LEGAL COMPLIANCE

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any non-compliance that is material or systemic in nature. We strive to foster a strong compliance culture among our Group. Our Group has established a regulatory compliance manual and checklist governing, amongst others, (i) the roles and responsibilities of personnel involved in monitoring our Group's regulatory compliance; (ii) guidelines with reference to the relevant rules and regulations; (iii) types, frequency and timing of key documents to be filed or reported to regulatory authorities (if any); (iv) review and approval process; and (v) managing and responding to non-compliance and litigation issues. Depending on their roles and responsibilities, our employees are required to follow the requirements in our regulatory compliance manual. If any deviation from our regulatory compliance manual is identified, our senior management team will investigate the causes and take appropriate rectification measures.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE MATTERS

Environmental matters

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in conformance with ISO 14001:2015 international standard in 2018. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Set out below are our policies in addressing different environmental issues pertinent to our Group:

A. Emission

We have formulated and strictly implemented internal policies to provide clear guidance for our staff and our business partners on their environmental protection routine.

BUSINESS

(I) Air and greenhouse gas (the “GHG”) emission

Our major source of GHG emissions are generated from (i) use of motor vehicles; (ii) use of machinery (Scope 1); and (iii) electricity consumption (Scope 2). The following table sets forth a breakdown of our GHG emissions after the GEM Listing:

Indicator	Unit	FY2019	FY2020	Six months ended 30 June 2021
<i>Use of motor vehicles</i>				
- Nitrogen oxides	gram	96,648.25	149,653.12	89,813.30
- Sulphur oxides	gram	973.20	1,037.26	394.17
- Respiratory suspended particles	gram	8,383.25	13,552.68	6,716.12
<i>Direct GHG emissions (Scope 1)</i>				
- Carbon dioxide	kg	156,410.97	166,919.49	63,468.82
- Methane	kg	309.22	317.67	115.21
- Nitrous oxide	kg	20,519.18	21,204.15	7,772.70
<i>Indirect GHG emissions (Scope 2)</i>				
- Carbon dioxide	kg	20,978.45	139,294.89	47,862.78
- GHG emission intensity	kg/ construction contract	11,012.10	11,301.23	4,415.54

Our environmental management plan provides air pollution abatement guidelines and measures. Our carbon footprint policies on regulating the use of motor vehicles and plant and equipment mainly include:

- coaching our drivers to minimise fuel usage;
- closely monitoring the fuel consumption of our motor vehicles;
- purchasing environmentally friendly motor vehicles;
- regularly performing maintenance on our motor vehicles; and
- consuming environmental friendly diesel.

(II) Sewage discharge

We did not consume significant volume of water during the Track Record Period, thus we did not discharge a lot of water wastage. We have established certain water discharge procedures at sites, which include: (i) engagement of a

BUSINESS

service provider to collect sewage on site; and (ii) installation of a recycling system to collect and filter sediment and store the discharge from drilling operation.

(III) Waste management

(a) Hazardous wastes

In case any hazardous chemical wastes are produced, they will be temporarily stored in dedicated locations with appropriate hazard labels. A qualified chemical waste collector will be engaged to handle such waste. Due to our business nature and to the best knowledge of our Directors, our Group did not generate material amount of hazardous waste in the course of our operation.

(b) Non-hazardous wastes

The non-hazardous wastes generated from our Group's operations mainly include inert construction materials and paper consumed in our office. The following table sets forth a breakdown of our non-hazardous wastes generated after the GEM Listing:

Indicator	Unit	FY2019	FY2020	Six months ended 30 June 2021
Inert construction materials	tonnes	4,794.05	8,113.19	2,047.50
Inert construction materials usage intensity	tonnes/ construction contract <i>(Note)</i>	684.86	737.56	341.25
Paper	tonnes	1.93	1.50	0.56
Paper usage intensity	tonnes/ construction contract	0.11	0.05	0.19

Note: Construction contracts include works that would generate inert construction materials.

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With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, our Group has implemented the following measures in waste management and launched different wastes reduction initiatives:

- By improving the design of detailed precautionary plans, we were able to minimise the generation of construction wastes. Our site agents would conduct surveys to identify and prepare a statement to address any construction activities that would potentially generate construction wastes.
- To the extent possible, we reused construction materials such as wood and metal.
- Before construction works commenced, our site agent would conduct a survey to identify any construction activities that would potentially generate construction wastes. They would then prepare a statement to address the issues of wastes generated from construction activities and demolition works or use of timber in temporary works construction.
- We encouraged our employees to reduce paper consumption by (a) using electronic media for internal communication; (b) printing only when necessary; and (c) when printing is necessary, use suitable font size or shrinkage mode to minimise pages.

B. Use of resources

Electricity consumption

Our Group's direct energy consumption mainly included electricity consumed. The following table sets forth a breakdown of our energy consumption after the GEM Listing:

Indicator	Unit	FY2019	FY2020	Six months ended 30 June 2021
Electricity usage	kWh	100,443.85	221,103.00	75,972.66
Electricity usage intensity	kWh/office	33,481.28	44,220.00	25,324.22

(Note)

Note: Office includes our head office and construction site offices.

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In relation to electricity consumption, we have performed certain initiatives, which include (i) switching off electronic appliances before leaving the workplace; and (ii) setting the office air conditioner temperature at 25 degrees Celsius.

Water consumption

Water is mainly consumed during the operating stage and when cleaning and sanitation at construction sites. The following table sets forth a breakdown of our water consumption after the GEM Listing:

Indicator	Unit	FY2019	FY2020	Six months ended 30 June 2021
Water consumption	cu.m	14,743.18	27,501.00	11,937.00
Water consumption intensity	cu.m/office <i>(Note)</i>	4,914.39	5,500.20	3,979.00

Note: Office includes head office and construction site offices.

In relation to water consumption, we have performed certain initiatives, which include (i) utilising recycled water for core drilling operations; and (ii) reporting any leaking faucet or pipe to the relevant authority.

C. Noise

Due to our business nature, we recognise noise control as potential negative environmental impacts. To mitigate the disturbance to the community and environment, we adopted certain noise pollution control on our operations, which include:

- an on-site safety officer would conduct noise assessment to determine the noise level of the plant in use and construction in process. Depending on site circumstances, a new assessment would be made on every new work activity and, in general, we assess the noise level in every three months;
- silent plant or machinery, e.g. generator, air compressor, etc., would be used on site whenever practicable; and
- when we plan to operate noisy machinery, we post safety labels to clearly locate the noise protection zones and remind workers of the need for wearing hearing protectors.

Social matters

Set out below are our policies in addressing different social issues pertinent to our Group:

A. Employment

- We assess job candidates based on their experience and skills. An applicant's age, gender, religion or race will not affect his/her chance to obtain an offer. This principle also applies to our staff appraisal and staff counselling processes.
- We provide competitive remuneration packages to our staff. Our promotion and appraisal process enables us to review our staff's compensation and benefits periodically. Their compensation and benefit will be adjusted to reflect their performance and meet the market standard. Internal promotion is preferred over open recruitment when our Group expands our business.

B. Health and safety

- we carry out detailed risk assessment on safety before commencement of every construction work. Any inappropriate working procedures shall be revised on an ongoing basis. Our safety officers performed site inspections on a regular basis and would take immediate rectifications on any breach of safety rules and regulations.
- Our project teams always ensured that our workers received adequate induction and toolbox trainings before entering construction sites. The essential protective equipment was also provided to staff individually before commencement of their works.
- Work injuries were reported in accordance with our internal guidelines which were set up with reference to the work injury reporting required by the Labour Department.

For further details on our occupational health and safety management policies, please refer to the paragraph headed "Occupational health and work safety" in this section.

C. Development and training

- Training sponsorship for job related courses were granted from time to time with our Directors' approval.
- New employees were greeted with an induction briefing by their immediate supervisor. Staff handbook would be provided to newly joined staff so as to familiarise them with our Group's culture and their job duties.

BUSINESS

D. Labour standards

Our human resources department adopts stringent controls in the recruitment process for screening out forced labour, child labour and illegal immigrant labour. Meanwhile, our project management teams inspected regularly on construction sites to eliminate any chance of illegal employment.

E. Supply chain management

- Our materials are purchased from qualified suppliers whose products meet the requirements of applicable environmental laws and regulations.
- Our safety officer conducted regular environmental training course to raise environmental consciousness of our subcontractors' workers, while scheduled and ad-hoc environmental inspections were carried out at least once a week.
- Whenever we needed to source for new vendors or subcontractors, we carried out a fair and unbiased tender process. Selection criteria included the price offered by the suppliers, their capabilities in meeting our product and service requirements, their qualifications, and the level of their social and environmental awareness.

F. Services responsibility

- Prior to delivering our works, our project management team invited our customers to inspect the work progress and resolved safety and health concerns, if any.
- Our staff was well trained to handle materials containing sensitive information of our customers. Firewall, anti-virus and anti-spam solutions were installed in our information technology infrastructure to help protect customers' information.

G. Anti-corruption

We implemented our anti-corruption policies during all procurement process. Over the years, no suspected or actual bribery, extortion, fraud or money laundering activities occurred. Acceptance of kickbacks, commissions or any form of bribery are strictly prohibited.

H. Community investment

Our Group supports and encourages our employees to participate in any volunteer works or charity activities. From time to time, donations have been made to charity organisations.

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Corporate governance matters

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the Main Board Listing Rules. We have established procedures for developing and maintaining internal control systems covering areas such as corporate governance, operations management, compliance matters, financial reporting, as appropriate for our business operations. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. In particular, we have adopted the following internal control measures to enhance our corporate governance:

- (i) our Board includes four independent non-executive Directors, whose backgrounds and profiles are set out in the section headed “Directors and senior management” in this listing document, to ensure transparency in management and fairness in business decisions and operations. Our independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight;
- (ii) based on their extensive administrative experience and specialised knowledge, our Directors will review and provide recommendation on our risk management related policies and procedures, and review the effectiveness and adequacy of our risk management activities annually;
- (iii) we have established three board committees, namely, the audit committee, the nomination committee and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. The board committees are provided with sufficient resources to discharge their duties. For details, please refer to the paragraph headed “Directors and senior management – Board committees” in this listing document;
- (iv) we have established the audit committee which comprises four independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems. Our internal control system will be reviewed by our internal audit personnel or independent internal control consultant on an annual basis to ensure that effective internal control procedures are in place;
- (v) we have from time to time provide to our Directors updates on law, rules and regulations which may be relevant to our Directors’ roles, duties and functions as directors of a listed company on the Stock Exchange. In addition, our company secretary, Mr. Lam Kau Wang, undertook over 15 hours of professional training to update his skill and knowledge and complied with the relevant professional training requirement and will attend external professional training each year to keep himself abreast of the latest accounting and/or regulatory regime in Hong Kong;

BUSINESS

- (vi) we have appointed Grande Capital Limited as our compliance adviser (with effect from the GEM Listing Date) to advise us on compliance matters in relation to the GEM Listing Rules and the Main Board Listing Rules;
- (vii) to avoid potential conflicts of interest, we have implemented corporate governance measures as set out in the paragraph headed “Relationship with Controlling Shareholders – Corporate governance measures” in this listing document; and
- (viii) our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports.

Corporate governance measures to ensure the proper use of our Group’s funding after the GEM Listing

To ensure the proper use of our Group’s funding after the GEM Listing, our Group has adopted the following corporate governance measures to ensure any cash advances to Directors or any other types of connected transactions (if any) are carried out in accordance with chapter 14A of the Main Board Listing Rules:

- a written agreement must be prepared and the terms and conditions therein must be arrived at through arm’s length negotiation so that the interests of the Shareholders would not be unfairly prejudiced;
- the audit committee was set up to monitor our Group’s financial statements and accounts, annual reports, half-yearly reports, and quarterly reports, and to review the significant financial reporting judgements. The audit committee would consider any significant or unusual items that are, or may need to be, disclosed in the reports and accounts. The audit committee would give due consideration to any matters raised by our Group’s staff responsible for the accounting and financial reporting function, compliance officer or auditors; and
- in respect of non-exempt connected transactions, our Group has also implemented the following additional measures:
 - the connected transactions must be conditional on Shareholders’ approval at a general meeting, during which any Shareholders and/or Directors who has a material interest in the transaction must be abstained from voting;
 - the connected transactions during a financial year must be disclosed in our Group’s annual report; and
 - a circular must be sent to our Shareholders regarding the connected transactions.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed “Risk factors” in this listing document. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation:

(i) Customer concentration risk

Please refer to the paragraph headed “Our customers – Customer concentration” above in this section.

(ii) Risk of cost overruns

We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs we incur would not exceed our estimation during the course of project implementation. For details of our measures on minimising the risk of cost overruns, please refer to the paragraph headed “Pricing strategy” above in this section.

(iii) Risk relating to subcontractors’ performance

Please refer to the paragraphs headed “Our suppliers – Basis of selecting suppliers – Selection of subcontractors” and “Our suppliers – Control over subcontractors” above in this section.

(iv) Credit risk management

We are subject to risks in relation to the collectability of our trade and other receivables, details of which are summarised in the paragraph headed “Risk factors – We are subject to credit risk in relation to the collectability of our contract assets and trade receivables”.

For the purpose of mitigating our exposure to credit risk, our finance and administration staff are responsible for conducting individual credit evaluations on our customers on a regular basis. Prior to accepting work orders from new customers, our finance and accounting staff would check on the background of the potential customer in order to access their credibility.

Material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions having regard to our business relationship with the customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications and conducting follow up calls with the customers.

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We generally grant our customers a credit term of 30 to 60 days from the invoice date. As at 31 December 2018, 2019, 2020 and 30 June 2021, we recorded trade receivables of approximately HK\$4.0 million, HK\$10.6 million, HK\$18.7 million and HK\$12.8 million respectively, of which HK\$0.1 million, nil, nil and nil, respectively have been past due but not impaired.

To ensure timely identification of doubtful or irrecoverable debts, our finance and administration staff would report to our financial controller on the collection status and ageing analysis of outstanding payments on a regular basis. Trade receivables overdue will be reviewed by our financial controller and, if appropriate, provisions for impairment of trade receivables will be made accordingly.

(v) Liquidity risk management

There are often time lags between making payment to our suppliers (including subcontractors) and receiving payment from our customers when undertaking contractual works, resulting in possible cash flow mismatch. Further, our customer may require us to take out performance bond, thereby locking up a portion of our capital for a prolonged period of time.

In order to manage our liquidity position in view of the aforementioned working capital requirement and the possible cash flow mismatch associated with undertaking contractual works, we have adopted the following measures:

- our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements;
- as a general policy, we only procure materials on an as-needed basis according to the requirement and schedule of the project to prevent excessive purchases; and
- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of amounts due from our customers; and (iii) performing monthly review of our trade payables and aging analysis to ensure that payments to our suppliers are made on a timely basis.

(vi) Purchase of materials

When selecting suppliers, our executive Directors would consider the reputation, quality of products delivered, prevailing marketing price and delivery timeliness of the supplier. Purchases must be ordered from suppliers that were approved by the executive Directors. Our executive Directors usually seek quotations from two to three suppliers of materials for comparison. The site agent is responsible for assessing the quantity of materials on site, plan the delivery schedule for ordered goods, and make purchase request accordingly for approval by our executive Directors.

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Suppliers would deliver materials to the instructed sites as specified by us. When the goods arrives, our foreman or site agent would inspect the quality and quantity of the goods. If no issues were found upon quantity and quality inspection, our foreman or site agent will acknowledge receipt on the delivery note and pass the delivery note to our head office for payment processing. If any quantity or quality issues arise, our foreman or site agent will request replacement delivery from the relevant suppliers. Payments to our suppliers would only be approved by our executive Directors after all quantity or quality issues are resolved.

(vii) Fixed assets

Our fixed assets mainly include furniture, motor vehicles and construction machinery. Acquisition request for fixed assets would be initiated by project managers. Any acquisition of fixed assets is approved by our executive Directors. Our executive Directors would perform physical checking on the conditions of relevant fixed assets before the acquisitions. Purchase order would be placed by our executive Directors. Upon delivery, our executive Directors will inspect the conditions of the fixed assets and, if appropriate, approve the invoices issued by the vendors and pass them to our finance and administration department for settlement and update the fixed asset register.

Our finance and administration department is responsible for maintaining documentary records for our motor vehicles, including vehicle registration documents issued by the Government as well as third-party liability insurance policies. Appropriate filings and applications are made by our finance and administration department when the registrations and/or insurance policies of our motor vehicles are due for renewal.

(viii) Regulatory risk management

We keep ourselves abreast of any changes in government policies, regulations, and licensing requirements in relation to our business operations, as well as relevant environmental, safety requirements. We will ensure that any changes of the above are closely monitored and communicated to our management and supervisory team members for proper implementation and compliance.

(ix) Occupational health and work safety

Please refer to the paragraph headed “Occupational health and work safety” in this section.

(x) Quality control system

Please refer to the paragraph headed “Quality control” in this section.

(xi) Environmental management system

Please refer to the paragraph headed “Environmental compliance” above in this section.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of two executive Directors and four independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Date of joining our Group	Present position	Date of appointment as Director	Key role and responsibility
Mr. Sieh Shing Kee (謝城基先生)	54	22 December 2016	Chairman of our Board and executive Director	30 January 2019	Overall management, strategic planning and day-to-day business operation of our Group
Mr. Ho Ka Ki (何家淇先生)	47	24 September 2016 <i>(Note)</i>	Executive Director and chief executive officer	30 January 2019	Overall management, strategic planning and day-to-day business operation of our Group
Mr. Tso Ping Cheong Brian (曹炳昌先生)	41	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Mr. Kwong Che Sing (鄺志成先生)	60	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Mr. Ling Siu Tsang (凌肇曾先生)	66	25 November 2019	Independent non-executive Director	25 November 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Ms. Chiao Siu Ling (趙少玲女士)	49	1 July 2021	Independent non-executive Director	1 July 2021	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct

Note: Mr. Ho Ka Ki co-founded A-City Workshop in August 2012 and re-joined our Group as the director of A-City Workshop in September 2016.

Executive Directors

Mr. Sieh Shing Kee (謝城基先生), aged 54, was appointed as our Director in January 2019, designated as our executive Director in February 2019 and appointed as the chairman of our Board in March 2019. Mr. Sieh joined A-City Workshop as a director and shareholder in December 2016. Mr. Sieh is also one of our Controlling Shareholders and a director of Kanic International. Mr. Sieh is primarily responsible for overall management, strategic planning and day-to-day business operation of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sieh obtained a bachelor's degree of science in engineering from the University of Hong Kong in November 1991. Mr. Sieh was registered as a Registered Professional Engineer under the Engineers Registration Board and was admitted as a member of the Institution of Structural Engineers in October 2000 and a member of the Hong Kong Institution of Engineers in March 2001.

Prior to joining our Group, Mr. Sieh worked for China Civil Engineering Construction Corporation, being an international company based in the PRC engaging in international contracting for railway construction and civil engineering design and consultancy, real estate development, trading, industrial investment and hotel management, from December 2000 to February 2001 as a structural engineer. From March 2001 to March 2004, Mr. Sieh worked for Carrier Construction Limited, being a construction company based in Hong Kong specialising in geotechnical works and an approved specialist contractor, as a site agent. From March 2007 to April 2013, Mr. Sieh worked for Shing Chun Engineering Limited, being a local construction company, as a director. From June 2011 to August 2016, Mr. Sieh worked for Tai Kam Construction Engineering Company Limited, being a slope works construction company in Hong Kong and an approved specialist contractor and the main operating subsidiary of Tai Kam Holdings Limited (a company listed on GEM of the Stock Exchange (stock code: 8321)), as a site agent.

Save as being a Director, Mr. Sieh has not been a director of any listed company in the last three years.

Mr. Sieh was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name	Principal business activities	Date of dissolution	Means of dissolution	Reasons for dissolution
FingerStones Engineering Limited	Construction engineering services	17 May 2019	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Shing Chun Engineering Limited	Construction	26 April 2013	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

Mr. Sieh has confirmed that each of the above companies was solvent at the time of its dissolution and there was no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Ka Ki (何家淇先生), aged 47, was appointed as our Director in January 2019, designated as our executive Director in February 2019 and appointed as our chief executive officer in March 2019. Mr. Ho co-founded A-City Workshop in August 2012, re-joined A-City Workshop as the director in September 2016 and became one of the shareholders of A-City Workshop in December 2016. Mr. Ho is also one of our Controlling Shareholders and a director of Kanic International. Mr. Ho is primarily responsible for overall management, strategic planning and day-to-day business operation of our Group.

Mr. Ho obtained a bachelor's degree of engineering in civil and structural engineering from the Hong Kong University of Science and Technology in November 1996. Mr. Ho was admitted as a member of the Hong Kong Institution of Engineers in March 2002. Mr. Ho was registered as a Registered Professional Engineer under the Engineers Registration Board in July 2003. Mr. Ho also obtained a diploma in occupational health and safety through a part-time face-to-face learning programme from Li Ka Shing Institute of Professional and Continuing Education of the Open University in Hong Kong in September 2002.

Prior to joining our Group, Mr. Ho worked for Zen Pacific Civil Contractors Ltd., being a construction company in Hong Kong, from July 1996 to October 2000 as an engineer as his last position and was responsible for various civil engineering projects. From November 2000 to August 2002, Mr. Ho worked for HK ACE Joint Venture of Hong Kong Construction (Holdings) Ltd., AMEC International Construction Ltd., China Railway Construction Corporation and China Everbright Holdings Co. Ltd. as a senior engineer as his last position and was responsible for the construction of Siu Hong station structure works of the West Rail development. From September 2002 to April 2004, Mr. Ho worked for Ngo Kee Construction Co., Ltd, being a company in Hong Kong engaging in engineering construction and building construction, as an engineer. From November 2011 to August 2016, Mr. Ho worked for Tai Kam Construction Engineering Company Limited, being a slope works construction company in Hong Kong and an approved specialist contractor and the main operating subsidiary of Tai Kam Holdings Limited (a company listed on GEM of the Stock Exchange (stock code: 8321)), as a site agent as his last position.

Save as being a Director, Mr. Ho has not been a director of any listed company in the last three years.

Mr. Ho was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name	Principal business activities	Date of dissolution	Means of dissolution	Reasons for dissolution
FingerStones Engineering Limited	Construction engineering services	17 May 2019	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
O2 OxyLife Hong Kong Limited	Trading	20 April 2012 (Note)	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

DIRECTORS AND SENIOR MANAGEMENT

Note: Mr. Ho ceased to act as director of O2 OxyLife Hong Kong Limited in August 2010 and transferred 35% of the shareholding of O2 OxyLife Hong Kong Limited, representing his entire interests in such company, to an existing shareholder in August 2011.

Mr. Ho has confirmed that each of the above companies was solvent at the time of its dissolution and there was no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Independent non-executive Directors

Mr. Tso Ping Cheong Brian (曹炳昌先生), aged 41, was appointed as our independent non-executive Director in November 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Mr. Tso obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in November 2003 and a master's degree of corporate governance from the same university in October 2013.

Mr. Tso was admitted as a member and was advanced as a fellow of the Association of Chartered Certified Accountants in October 2006 and October 2011, respectively. Mr. Tso was also admitted as a member and was advanced as a fellow of the Hong Kong Institute of Certified Public Accountants in September 2008 and October 2015, respectively. Mr. Tso was admitted as a fellow of the Institute of Chartered Secretaries and Administrators in November 2015 and an associate and subsequently a fellow of the Hong Kong Institute of Chartered Secretaries in January 2014 and November 2015, respectively.

From September 2003 to December 2008, Mr. Tso worked for Ernst & Young, being an international accounting firm, as a manager as his last position and was responsible for assurance and advisory business services. From December 2008 to May 2010, Mr. Tso worked for Greenheart Group Limited (formerly known as Omnicorp Limited), being a company focusing on the wood harvesting, lumber-processing, marketing and sales and provision of wood products and listed on the Main Board of the Stock Exchange (stock code: 94) as the financial controller and was responsible for finance and accounting matters. From May 2010 to August 2012, Mr. Tso worked for Maxdo Project Management Company Limited, being an asset management company, as the senior vice president of the investment team and was responsible for handling merger and acquisition transactions, investor relations and business development. Mr. Tso founded Teton CPA Company, being an accounting firm, in January 2013 as the sole proprietor since then.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tso was/is also an independent non-executive director of the following companies listed on the Stock Exchange in the last three years, details as follows:-

Name of the company	Listing platform	Capacity	Tenure of service
Larry Jewelry International Company Limited (stock code: 8351)	GEM	Independent non-executive director	October 2014 – September 2019
Guru Online (Holdings) Limited (stock code: 8121)	GEM	Independent non-executive director	May 2014 – present
Huasheng International Holding Limited (formerly known as Newtree Group Holdings Limited) (stock code: 1323)	Main Board	Independent non-executive director	February 2015 – present
Shenglong Splendecor International Limited (stock code: 8481)	GEM	Independent non-executive director	June 2018 – present
EFT Solutions Holdings Limited (stock code: 8062)	GEM	Independent non-executive director	September 2019 – present

Save as being a Director and as disclosed above, Mr. Tso has not been a director of any listed company in the last three years.

Our Directors consider and the Sponsor concurs that, notwithstanding Mr. Tso's independent non-executive director roles in other companies, Mr. Tso has been, and will continue to be, able to devote sufficient time to discharge his duties as an independent non-executive Director, on the basis that (a) notwithstanding his current engagements with other companies, he had attended substantially all our Board meetings and meetings of our audit committee since the GEM Listing; (b) as an independent non-executive Director, he does not participate in our daily operation and management, but only participates in the decision-making process of significant matters such as our operational strategies; and (c) he has confirmed that he will devote sufficient time to perform his duties as an independent non-executive Director.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tso was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name of the company	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Singular Products Limited	Investment holding	24 December 2015	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Charisma Private Capital Partners Limited	Investment holding	11 March 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Ivory Tower Investments Limited	Investment holding	2 September 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Avatar Private Property Limited	Investment holding	28 October 2016	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution
Cerebra Its Limited	Investment holding	25 May 2018	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

Mr. Tso has confirmed that each of the above companies was solvent at the time of its dissolution and there was no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwong Che Sing (鄺志成先生), aged 60, was appointed as our independent non-executive Director in November 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Mr. Kwong obtained a certificate in land surveying from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in November 1985.

Mr. Kwong was elected as a professional member of the Royal Institution of Chartered Surveyors in December 2001 and an associate of the Hong Kong Institute of Surveyors in February 2002. Mr. Kwong was registered as an authorised land surveyor under the Land Survey Ordinance (Chapter 473 of the Laws of Hong Kong) in February 2003.

Since October 1984, Mr. Kwong has worked for the Lands Department as a senior survey officer responsible for surveying matters. From July 1997 to April 2002, Mr. Kwong worked for Helicon Ma Surveying Limited, being a local surveying service provider, as a land surveyor and was responsible for, among others, implementation of customised tools in plan production, calculation and setup of a systematic survey mechanism. In August 1997 and November 2000, Mr. Kwong founded G&T Surveying Services Company Limited and Geoffrey Kwong Land Surveyor Limited, respectively, as one of the founder members for the purpose of providing surveying service. Mr. Kwong was the director of such companies since their incorporation. Mr. Kwong has also been a director of Nice Cute Limited since June 2016.

Save as being a Director, Mr. Kwong has not been a director of any listed company in the last three years.

Mr. Kwong was a director of the following companies in Hong Kong immediately prior to their dissolution:

Name of the company	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
G&T Surveying Services Company Limited	Surveying	23 August 2002	Dissolved by striking off under section 291 of the Predecessor Companies Ordinance	Such company was no longer carrying on business or in operation prior to its dissolution
Geoffrey Kwong Land Surveyor Limited	Surveying	18 September 2015	Dissolved by deregistration	Such company was no longer carrying on business or in operation prior to its dissolution

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwong has confirmed that each of the above companies was solvent at the time of its dissolution and there was no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Ling Siu Tsang (凌肇曾先生), aged 66, was appointed as our independent non-executive Director in November 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Mr. Ling obtained a bachelor's degree of science in civil engineering from the University of Calgary in Canada in June 1978 and a master of business administration from the University of East Asia Macau in Macau in October 1986.

Mr. Ling was admitted as a member of the Hong Kong Institution of Engineers in August 2010. Mr. Ling was registered as a Registered Professional Engineer under the Engineers Registration Board in October 2017. Since April 2018, Mr. Ling has also been appointed by Hong Kong Accreditation Service of the Innovation and Technology Commission as an assessor.

From July 1983 to May 1986, Mr. Ling worked for the Engineering Development Department as a geotechnical engineer. From June 1986 to June 1990, Mr. Ling worked for the Civil Engineering Services Department as a geotechnical engineer. From December 1995 to April 2016, Mr. Ling worked for the then Civil Engineering Department and the CEDD as the chief geotechnical engineer as his last position and was responsible for the management of consultancy agreements and other engineering matters. From November 2017 to November 2020, Mr. Ling was re-engaged by the Geotechnical Engineering Office of the CEDD as a contract technical manager.

Save as being a Director, Mr. Ling has not been a director of any listed company in the last three years.

Ms. Chiao Siu Ling (趙少玲女士), aged 49, was appointed as our independent non-executive Director in July 2021 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Ms. Chiao obtained a bachelor of arts degree from the University of Hong Kong in November 1995, a bachelor of laws degree from the University of London in August 2002 and a Postgraduate Certificate in Laws from the University of Hong Kong in June 2003. Ms. Chiao was admitted as a solicitor of the High Court of Hong Kong in November 2005.

From September 1996 to September 2002, Ms. Chiao worked for Taikoo Shing (Management) Limited, being a property management company, first as a community relations officer and was later promoted to a senior community relations officer responsible for community relation services including organising functions for the residents and providing charity services to the community. Ms. Chiao has worked for LCP Solicitors &

DIRECTORS AND SENIOR MANAGEMENT

Notaries since September 2003, first as a trainee solicitor and currently as an assistant solicitor specialising in conveyancing transactions, commercial transactions and contracts, probate, and family, civil and criminal litigations.

Save as being a Director, Ms. Chiao has not been a director of any listed company in the last three years.

Disclosures required under Rule 13.51(2) of the Main Board Listing Rules

Save as disclosed in this section, each of our Directors has confirmed with respect to him/her that (a) he/she has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas prior to the Latest Practicable Date; (b) he/she did not hold any other positions in our Group as at the Latest Practicable Date; (c) he/she did not have any relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; (d) he/she does not have any other interests in the Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about our Directors and our Substantial Shareholders – 1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation” in Appendix IV to this listing document; (e) he/she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the Main Board Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 13.51(2) of the Main Board Listing Rules and no other matter with respect to their appointments that needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT PERSONNEL

Other than our Directors, our senior management team consists of two members, who, together with our Board, are responsible for the day-to-day management of our Group. The following table sets forth certain information in respect of our senior management personnel:

Name	Age	Date of joining our Group	Present position	Date of appointment as senior management personnel	Key role and responsibility
Mr. Lam Kau Wang (林教宏先生)	41	January 2019	Financial controller	January 2019	Responsible for overall financial administration and corporate governance matters
Mr. Lau Chiu Ming (劉超明先生)	39	September 2017	Project manager	December 2018	Responsible for project planning, supervision and administration of construction activities of the projects

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Kau Wang (林教宏先生), aged 41, joined our Group as the financial controller of A-City Workshop in January 2019 and is mainly responsible for overall financial administration and corporate governance matters.

Mr. Lam obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in November 2003. Mr. Lam was admitted as a fellow of the Association of Chartered Certified Accountants in August 2012 and a certified public accountant of the Hong Kong Institute of Certified Public Accountants in September 2010.

Prior to joining our Group, Mr. Lam worked for Deloitte Touche Tohmatsu, being an international accounting firm, from December 2004 to August 2010 as a senior accountant as his last position. From August 2010 to July 2012, Mr. Lam worked for Maxdo Group Limited, being a service company based in Hong Kong engaging in the business of trade finance and real estate investment agency, as the vice president and was responsible for the forestry operation in Central America and liaising with related parties for the forestry investments in South America. From July 2012 to August 2016, Mr. Lam worked for Edipresse Media Asia Limited, being a leading luxury media group based in Asia, as the financial controller as his last position and was responsible for the overall financial administration of such company. From August 2016 to December 2018, Mr. Lam worked for Victory Kind Container Service Ltd, being a company in Hong Kong engaging in the business of depot and warehouse, as the financial controller and was responsible for finance and accounting matters. In November 2017, Mr. Lam founded Booket Digital Media Development Company Limited as one of the founder members for the purpose of providing information technology services. Mr. Lam has also been the director of such company since August 2018.

Mr. Lam has not been a director of any listed company in the last three years.

Mr. Lau Chiu Ming (劉超明先生), aged 39, joined our Group as a site agent of A-City Workshop in September 2017 and became our project manager in December 2018. Mr. Lau is mainly responsible for project planning, supervision and administration of construction activities of the projects.

Mr. Lau obtained a bachelor's degree of engineering in civil engineering from the University of Wales Swansea in the United Kingdom in July 2006 and a master's degree of science in computer modelling and finite elements in engineering mechanics from the same university in March 2008.

Prior to joining our Group, Mr. Lau worked for China Harbour Engineering Co Ltd, being a subsidiary of China Communications Construction Company Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1800)), from November 2009 to March 2010 as a graduate engineer. From March 2010 to September 2017, Mr. Lau worked for AECOM Asia Company Limited, being a subsidiary of AECOM (a company listed on the New York Stock Exchange (stock code: ACM)), as an assistant resident engineer (geotechnical) as his last position and was responsible for design and construction of the widening of Tai Po Road (Sha Tin Section).

Mr. Lau has not been a director of any listed company in the last three years.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Lam Kau Wang (林教宏先生), our financial controller is also our company secretary. For details of his background, please refer to the paragraph headed “Senior management personnel” in this section.

COMPLIANCE OFFICER

Mr. Ho Ka Ki is the compliance officer of our Company. For details of his background, please refer to the paragraph headed “Directors” in this section.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee on 25 November 2019 in respect of the GEM Listing. We adopted on 20 December 2021 a new set of terms for the audit committee which shall be effective upon the Transfer of Listing. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary roles of our audit committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of our financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing our financial controls, internal control and risk management systems. Our audit committee consists of four members, namely, Mr. Tso Ping Cheong Brian, Mr. Kwong Che Sing, Mr. Ling Siu Tsang and Ms. Chiao Siu Ling. Mr. Tso Ping Cheong Brian is the chairman of our audit committee. Please refer to the paragraph headed “Directors” in this section for the backgrounds of the members of our audit committee.

Remuneration committee

Our Company established a remuneration committee on 25 November 2019 in respect of the GEM Listing. We adopted on 20 December 2021 a new set of terms for the remuneration committee which shall be effective upon the Transfer of Listing. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary roles of our remuneration committee include, but are not limited to, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management personnel and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving our management’s remuneration proposals with reference to our Board’s corporate goals and objectives; and (c) making recommendations to our Board on the remuneration of non-executive Directors. Our remuneration committee consists of four members, namely, Mr. Ling Siu Tsang, Mr. Sieh Shing Kee, Mr. Kwong Che Sing and Ms. Chiao Siu Ling. Mr. Ling Siu Tsang is the chairman of our remuneration committee. Please refer to the paragraph headed “Directors” in this section for the backgrounds of the members of our remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

Our Company established a nomination committee on 25 November 2019 in respect of the GEM Listing. We adopted on 20 December 2021 a new set of terms for the nomination committee which shall be effective upon the Transfer of Listing. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of our nomination committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become our Board members and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; and (c) assessing the independence of our independent non-executive Directors. Our nomination committee consists of four members, namely, Mr. Sieh Shing Kee, Mr. Kwong Che Sing, Mr. Ling Siu Tsang and Ms. Chiao Siu Ling. Mr. Sieh Shing Kee is the chairman of our nomination committee. Please refer to the paragraph headed “Directors” in this section for the backgrounds of the members of our nomination committee.

REMUNERATION OF MANAGEMENT PERSONNEL

Our Directors and senior management personnel receive remuneration in the form of salaries, bonuses, other allowances and benefits in kind. We determine the salaries of our Directors (including our independent non-executive Directors) and senior management personnel based on their qualification, position and seniority. In addition to salaries, our Directors may receive discretionary bonuses. The aggregate amount of remuneration (including fees, salaries and allowances, and retirement scheme contributions) paid to our Directors for FY2018, FY2019, FY2020 and the six months ended 30 June 2021 amounted to approximately HK\$1,428,000, HK\$1,500,000, HK\$2,886,000 and HK\$1,443,000, respectively. Details of the remuneration paid to each of our Directors during the Track Record Period are set out in note 11 to the Accountants’ Report set out in Appendix I to this listing document.

The aggregate amount of remuneration (including salaries, fee and allowances, and retirement scheme contributions) paid to the five highest paid individuals (including our Directors) of our Group for FY2018, FY2019, FY2020 and the six months ended 30 June 2021 amounted to approximately HK\$3,057,000, HK\$3,450,000, HK\$4,973,000 and HK\$2,288,000, respectively.

During the Track Record Period, no emoluments were paid by our Group to our Directors or to the above highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office as a director or management of any members of our Group. None of our Directors or the highest paid individuals waived any compensation during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of remuneration (including fees, salaries and allowances, and retirement scheme contributions) payable to our Directors for FY2021 is estimated to be approximately HK\$2,961,000. Our Board will review and determine the remuneration and compensation packages of our Directors and

DIRECTORS AND SENIOR MANAGEMENT

senior management upon receiving recommendation from our remuneration committee. Our Board will take into account, among others, salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group in determining the remuneration and compensation packages of our Directors.

Our Directors (including our independent non-executive Directors) and senior management personnel are entitled to participate in the Share Option Scheme, the principal terms of which are set out under the paragraph headed “D. Share Option Scheme” in Appendix IV to this listing document.

Further details of the terms of the service agreements of and remuneration paid to our Directors are set out under the paragraph headed “C. Further information about our Directors and our Substantial Shareholders – 3. Particulars of service agreements and appointment letters” in Appendix IV to this listing document.

CORPORATE GOVERNANCE

We are expected to comply with the CG Code set out in Appendix 14 to the Main Board Listing Rules. Any deviation shall be carefully considered, and the reasons for such deviation shall be given in our interim report and annual report in respect of the relevant period. We are committed to achieving high standards of corporate governance with a view of safeguarding the interests of our Shareholders as a whole. We will comply with the CG Code after the Transfer of Listing.

Board diversity

We have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, we seek to achieve board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our nomination committee is delegated by our Board to be responsible for compliance with relevant code governing board diversity under the CG Code. After the Transfer of Listing, our nomination committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the Board Diversity Policy on annual basis.

Our Directors include both genders and have a balanced mix of experiences, including business management, business development, industry knowledge, corporate governance and compliance, legal, finance, auditing and accounting experiences. Furthermore, the ages of our Directors range from 41 years old to 66 years old. The education background of our Directors ranges from accountancy, legal and business administration to land surveying and engineering, from education institutions in Hong Kong, Macau to the United Kingdom and Canada. We have also taken, and will continue to take steps to promote gender diversity at

DIRECTORS AND SENIOR MANAGEMENT

all levels of our Company, including but not limited to our Board and senior management levels. We will continue to apply the principle of appointments based on merits with reference to the Board Diversity Policy as a whole.

COMPLIANCE ADVISER

Our Company has appointed Grande Capital Limited to be our compliance adviser in compliance with Rule 6A.19 of the GEM Listing Rules. The term of the engagement commenced on the GEM Listing Date and will end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the GEM Listing Date. Pursuant to Rule 9A.13 of the Main Board Listing Rules, the continuous requirements relating to the appointment of a compliance adviser for the period specified in Rule 6A.19 of the GEM Listing Rules will survive in respect of the Transfer of Listing. As the Transfer of Listing takes effect before the expiry of the requirement under Rule 6A.19 of the GEM Listing Rules, this GEM Listing Rules requirement will continue for the remaining term notwithstanding that the Shares have been transferred to and listed on the Main Board. We shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including Share issues and Share repurchases;
- (c) where we propose to use the proceeds of the GEM Share Offer in a manner different from that detailed in the GEM Prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in the GEM Prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules or Rule 13.10 of the Main Board Listing Rules concerning unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares, or any other matters.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Mr. Ho and Mr. Sieh entered into a deed of acting in concert confirmation and undertaking dated 20 March 2019 and a supplemental deed of acting in concert confirmation and undertaking dated 20 December 2021, whereby they have, among other things, (a) confirmed and declared that prior to the execution of the deed of acting in concert confirmation and undertaking, they had acted in concert as a group and voted as a group (by themselves and/or through companies controlled by them) in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels; and (b) undertaken that, upon execution of the deed of acting in concert confirmation and undertaking and during the period they (by themselves or together with their associates) remain in control of our Group until the deed of acting in concert confirmation and undertaking is terminated by all of them in writing, they shall continue to act in concert as a group and to vote as a group (by themselves and/or through companies controlled by them and/or their trustees) on an unanimous basis in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels.

Immediately following completion of the Transfer of Listing, Good Hill (which is wholly-owned by Mr. Ho and Mr. Sieh in equal share) will be entitled to exercise or control the exercise of 75% of the voting power at general meetings of our Company, therefore, Good Hill is our Controlling Shareholder. On the basis that Mr. Ho and Mr. Sieh have decided to restrict their ability to exercise direct control over our Company by holding their interests through Good Hill, Mr. Ho and Mr. Sieh are a group of our Controlling Shareholders.

Further, since Good Hill is a company controlled by Mr. Ho and Mr. Sieh, Good Hill, Mr. Ho and Mr. Sieh are together regarded as a group of our Controlling Shareholders pursuant to the deed of acting in concert confirmation and undertaking.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

Financial independence

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations. From the GEM Listing Date to the Latest Practicable Date, our Group relied principally on the proceeds of the GEM Share Offer and cash generated from operations to finance our business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

From the GEM Listing Date to the Latest Practicable Date, our Group (a) had no non-trade amounts due from/to our Controlling Shareholders; (b) did not arrange for any issuance of performance bonds which were secured by personal guarantees of our Controlling Shareholders; and (c) did not obtain any banking facilities which were secured by personal guarantees of our Controlling Shareholders.

Having considered that our future operations is not expected to be financed by our Controlling Shareholders, our Directors consider that our Group is financially independent of our Controlling Shareholders.

Operational independence

Our operations are independent of and not connected with any of our Controlling Shareholders. Having considered that (a) we have established our own organisational structure comprising individual departments, each with specific areas of responsibilities; (b) our Group has not shared our operational resources, such as customers, marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates; and (c) our Controlling Shareholders have no interest in any of our customers, suppliers or other business partners that are important to our operations, our Directors consider that our Group can operate independently of our Controlling Shareholders.

Management independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises two executive Directors and four independent non-executive Directors. Other than being our executive Director, Mr. Ho and Mr. Sieh are also directors of Good Hill, which is also our Controlling Shareholder. Save as disclosed above, none of our Directors serves any executive or managerial role in Good Hill.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he/she acts for the best interest of our Group and not to allow any conflict between his/her duties as a Director and his/her personal interest. Our independent non-executive Directors are all well-educated with extensive experience in various professions and they have been appointed pursuant to the requirements under the Main Board Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors with different backgrounds provides a balance of views and opinions. Our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision making power unless otherwise authorised by our Board.

In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective close associates (other than members of our Group), the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. In case both Mr. Ho and Mr. Sieh are required to abstain from voting at the

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Board meeting due to potential conflict of interest, our four independent non-executive Directors will be able to form a quorum and will ensure that the decisions of our Board are made after due consideration of independent and impartial opinions.

In addition, our Group has an independent senior management team whose backgrounds are set out in the paragraph headed “Directors and Senior Management – Senior management personnel” of this listing document, none of whom serves any executive or managerial role in Good Hill.

NO COMPETING INTERESTS

Our Directors, Controlling Shareholders and their respective close associates (other than members of our Group) do not have any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business.

UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

In addition to the undertaking pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to our Company that (a) it/he will not and will procure that the relevant registered holder(s) will not in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in the GEM Prospectus and ending on the date which is 30 months from the GEM Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by the GEM Prospectus to be the beneficial owner; and (b) it/he will not and will procure our Board not to, in the period during which our Controlling Shareholders remain as Controlling Shareholders, cause any fundamental change in the principal business of our Company and that the revenue attributable to the undertaking of construction and related works shall represent 75% or above of our total revenue of the respective year/period.

CORPORATE GOVERNANCE MEASURES

Our Directors consider that we have adequate corporate governance measures in place to resolve actual and potential conflict of interest. To further avoid potential conflict of interest, we have implemented the following measures:

- (a) our Company has adopted the Articles which provide that unless otherwise provided in the Articles, a Director shall not vote (nor shall he be counted in the quorum) on any resolution of our Board in respect of any contract or arrangement or other proposal in which he/she or his/her close associate(s) is/are materially interested, and if he/she shall do so his/her vote shall not be counted nor shall he/she be counted in the quorum for that resolution;
- (b) our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive and independent non-executive Directors. We have appointed four independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

their independent judgement. For details of our independent non-executive Directors, please refer to the paragraph headed “Directors and Senior Management – Directors” of this listing document; and

- (c) we have appointed Grande Capital Limited as our compliance adviser, which has provided advice and guidance to our Group in respect of compliance with the GEM Listing Rules and various requirements relating to directors’ duties and corporate governance, and will provide advice and guidance to our Group in respect of compliance with the Main Board Listing Rules and various requirements relating to directors’ duties and corporate governance following the Transfer of Listing until the expiry of the term of engagement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors and the chief executives of our Company, immediately following completion of the Transfer of Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the following persons (other than a Director or chief executive of our Company)/entities will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Name of Substantial Shareholder	Company concerned	As at the Latest Practicable Date		Percentage of interest in the company concerned
		Capacity/Nature of Interest <i>(Note 1)</i>	Class and number of securities held	
Good Hill	Our Company	Beneficial owner	300,000,000 ordinary Shares (L) <i>(Note 2)</i>	75.0%
Ms. Lee Kim Kum	Our Company	Interest of spouse	300,000,000 ordinary Shares (L) <i>(Note 3)</i>	75.0%
Ms. Cao Hongmei	Our Company	Interest of spouse	300,000,000 ordinary Shares (L) <i>(Note 4)</i>	75.0%

Notes:

1. The letter "L" denotes the entity's long position in the Shares.
2. Good Hill is directly owned in equal share by each of Mr. Ho and Mr. Sieh. As such, each of Mr. Ho and Mr. Sieh is deemed under the SFO to be interested in the 300,000,000 Shares held by Good Hill. Both of Mr. Ho and Mr. Sieh are our executive Directors.
3. Ms. Lee Kim Kum is the spouse of Mr. Ho. As such, Ms. Lee Kim Kum is deemed under the SFO to be interested in the Shares in which Mr. Ho is interested.
4. Ms. Cao Hongmei is the spouse of Mr. Sieh. As such, Ms. Cao Hongmei is deemed under the SFO to be interested in the Shares in which Mr. Sieh is interested.

SUBSTANTIAL SHAREHOLDERS

Our Substantial Shareholders, being persons and entities which are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of our Company immediately following completion of the Transfer of Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), include Good Hill and the two remaining Controlling Shareholders, i.e. Mr. Ho and Mr. Sieh. Good Hill is directly owned in equal share by each of Mr. Ho and Mr. Sieh.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Transfer of Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have any interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change in control of our Company.

SHARE CAPITAL

SHARE CAPITAL

Assuming that the total number of Shares in issue remains unchanged from the Latest Practicable Date to the date of the Transfer of Listing and without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below, our share capital immediately upon the Transfer of Listing will be as follows:

Authorised share capital

	<i>HK\$</i>
<u>1,000,000,000</u> Shares of par value of HK\$0.01 each	<u>10,000,000</u>

Shares in issue as at the date of this listing document

	<i>HK\$</i>
<u>400,000,000</u> Shares of par value of HK\$0.01 each	<u>4,000,000</u>

SHAREHOLDING DISTRIBUTION

Our Company has engaged a professional firm, which is an independent third party, to make enquiries into our Company's shareholding distribution pursuant to section 329 of the SFO. Based on the report of the aforesaid professional firm made up to 20 December 2021 and to the best knowledge of our Directors upon due enquiry, as at 2 December 2021 (being the latest practicable date for our Company to ascertain the following information prior to the Transfer of Listing), our Company had identified not less than 370 public Shareholders and the shareholding structure of our Company was as follows:

Top 25 Shareholders in terms of shareholding size in the Shares (including our Controlling Shareholders)	Number of Shares held <small>(Note 1)</small>	Percentage of shareholding
— Top 1 Shareholder <small>(Notes 2 and 3)</small>	300,000,000	75.00%
— Top 2 Shareholder <small>(Note 4)</small>	2,430,000	0.61%
— Top 3 Shareholder <small>(Note 4)</small>	2,365,000	0.59%
— Top 4 Shareholder <small>(Note 4)</small>	2,365,000	0.59%
— Top 5 Shareholder <small>(Note 4)</small>	2,270,000	0.57%
— Top 6 to 20 Shareholders <small>(Note 4)</small>	25,805,000	6.45%
— Top 21 to 25 Shareholders <small>(Note 4)</small>	6,935,000	1.73%
Sub-total:	342,170,000	85.54%
Other Shareholders	57,830,000	14.46%
Total:	400,000,000	100.00%

SHARE CAPITAL

Notes:

1. For prudence sake, in calculating the number of Shareholders, (a) Shareholders with the same names; or (b) Shareholders who hold Shares through multiple brokerage accounts with different brokerage firms would be deemed as one single beneficial Shareholder and the respective shareholdings will be aggregated in the shareholding analysis.
2. Save for the interests disclosed in this listing document, our Controlling Shareholders are not and were not interested in any Shares through any person, entity, custodian, nominee and brokerage firm. On the other hand, our Controlling Shareholders do not and did not hold any Shares on behalf of any person, entity, custodian, nominee and brokerage firm.
3. Our top 1 Shareholder was Good Hill, a Controlling Shareholder. Good Hill is directly owned in equal share by each of Mr. Ho and Mr. Sieh. Both of Mr. Ho and Mr. Sieh are our executive Directors.
4. To the best knowledge of our Directors and having made all reasonable enquiries, these Shareholders are all independent third parties and are not financed directly or indirectly by nor are accustomed to taking instruction from our Company, our subsidiaries, our Directors, senior management or any of their respective associates.

MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Main Board Listing Rules, at least 25% of the total number of issued Shares must at all times be held by the public (as defined in the Main Board Listing Rules). Our Directors have confirmed that from the GEM Listing Date to the Latest Practicable Date, we had maintained the said minimum level of public float in compliance with Rule 8.08 of the Main Board Listing Rules.

RANKING

The Shares will rank *pari passu* in all respects with each other, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Transfer of Listing.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary Shares, each of which ranks *pari passu* with other Shares. The circumstances under which general meetings are required are provided in the Articles. Detailed information on the Articles is set forth in Appendix III to this listing document.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general mandate to issue Shares pursuant to an ordinary resolution passed at the Annual General Meeting.

Such general mandate will remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of our Company; (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles, or any other applicable law of the Cayman Islands to be held; and (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such authority given to our Directors. Please refer to the paragraph headed “A. Further information about our Group – 4. Annual General Meeting held on 6 May 2021” in Appendix IV to this listing document for further details of such general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general mandate to repurchase Shares pursuant to an ordinary resolution passed at the Annual General Meeting. For the summary of the relevant requirements of the Main Board Listing Rules on such general mandate, please refer to the paragraph headed “A. Further information about our Group – 5. Repurchase of our own securities” in Appendix IV to this listing document.

Such general mandate will remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of our Company; (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles, or any other applicable law of the Cayman Islands to be held; and (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such authority given to our Directors. Please refer to the paragraph headed “A. Further information about our Group – 4. Annual General Meeting held on 6 May 2021” in Appendix IV to this listing document.

SHARE OPTION SCHEME

Our Company adopted the Share Option Scheme on 25 November 2019. The Share Option Scheme will remain valid and effective following the Transfer of Listing and will be implemented in full compliance with Chapter 17 of the Main Board Listing Rules. As at the Latest Practicable Date, no share option had been granted under the Share Option Scheme. The principal terms of the Share Option Scheme are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to this listing document.

FINANCIAL INFORMATION

The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's consolidated financial information as at the end of and for each of FY2018, FY2019, FY2020 and the six months ended 30 June 2021, including the notes thereto, included in Appendix I to this listing document. The consolidated financial information of our Group have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this listing document.

OVERVIEW

We are a slope works contractor in Hong Kong. We commenced our business in 2013 and mainly undertook slope works in the role of subcontractor during the Track Record Period. The slope works undertaken by us generally involve landslip preventive and remedial works for improving or maintaining the stability of slopes and/or retaining walls.

During the Track Record Period, our revenue represented income derived from undertaking slope works while the costs of our operations included, staff costs for carrying out site works, subcontracting expenses, costs of construction materials such as cement and concrete, steel reinforcement and landscape materials and other miscellaneous services costs required for slope works such as site planning and surveying services, motor vehicle expenses and machinery rental services.

During the Track Record Period, we were engaged in both public and private sector projects and the majority of our revenue was derived from public sector projects. In respect of public sector projects, our customers were generally construction contractors which are registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau. During the Track Record Period, the project owners of our public sector projects generally included the CEDD, the Lands Department, the Water Supplies Department, the Architectural Services Department and the Housing Authority. In respect of private sector projects, our customers were generally main contractors engaged by private property owners. As at the Latest Practicable Date, we had 20 projects on hand. For further details, please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period" in this listing document.

Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain slope works mainly including soil nail works, shotcreting works and landscape works.

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We generally procured the materials required for our projects from suppliers based in Hong Kong on our own account. Depending on the contract terms with our subcontractors, materials may be (i) provided by our subcontractors to us at their own costs; or (ii) procured by us on our own account for the use of our subcontractors. We generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. In general, the subcontractors charged us a fee for the provision of their machinery and such cost is included in our subcontracting expenses. Where the relevant site works were undertaken by our own workers, we would deploy our own machinery or lease the required machinery from our customers or rental service providers.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including, in particular, the following:

Market demand of public sector slope works projects

A significant portion of our revenue was derived from public sector slope works projects of which the project employers are Government departments and statutory bodies. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, revenue attributable to public sector projects amounted to approximately HK\$106.0 million, HK\$149.8 million, HK\$239.9 million and HK\$139.2 million, representing approximately 95.3%, 81.5%, 86.9% and 89.9% of our total revenue, respectively.

The Government's spending budget on civil engineering projects (especially those involving slope works, being the principal types of works we undertook during the Track Record Period) may change from year to year, which in turn may be affected by various factors, including but not limited to changes in the Government's policies in relation to landslip prevention and mitigation, changes in the Government's public housing policy, the amount of investment in the construction of new infrastructure and improvement of existing infrastructure by the Government, the general financial conditions of the Government and the general economic conditions in Hong Kong. Any reduction or significant delay in the level of spending on construction projects by the Government or discontinuation of favourable Government programmes such as the Landslip Prevention and Mitigation Programme may affect our business and operating results. In the event that the Government reduces or delays its level of spending on construction projects and our Group fails to secure sufficient business through the private sector, the business and financial positions and prospects of our Group could be materially and adversely affected.

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Potential mismatch in time between receipt of progress payments from our customers, payment of project up-front costs and payments to our suppliers and subcontractors which may adversely affect our cash flows

We may experience net cash outflows as project up-front costs at the preliminary stage of a project which include installing temporary hoarding, performing site planning and surveying and setting up site offices. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to our customers. During the Track Record Period, depending on the scale of the projects, there was generally an average time period of two to six months since we incur up-front costs for the projects up to the time when we receive the first payment from our customers. In addition, our customers may withhold up to 10% of each of our progress payment as retention money and subject to a maximum of 5% of the total contract sum, which will be released to us upon the expiry of the defect liability period. As at 31 December 2018, 2019 and 2020 and 30 June 2021, retention receivables of approximately HK\$1.2 million, HK\$3.4 million, HK\$11.9 million and HK\$15.7 million, respectively were retained by our customers as retention money. Further, our customer may request us to provide performance bond in the amount of certain percentage of the estimated contract sum in favour of our customer, which may result in the lock-up of a portion of our capital for potentially a prolonged period of time and thereby affecting our liquidity position. For further information, please refer to the paragraph headed “Business – Our customers – Principal terms of engagement” in this listing document.

Accordingly, in normal circumstances, our cash flow gradually turns from net outflows at the early stage of a project into accumulative net inflows as the project progresses. This results in a cash flow gap and in the event that we have more projects at the initial stage or that a substantial amount of retention money from various projects are being withheld by our customers at any given point of time, our liquidity may be materially and adversely affected.

Estimation of our project costs and determination of our tender price of our projects

Our projects are generally awarded through tender. The contract sum quoted in the tender is determined after evaluation of our scope of work and taking into account (i) the scope of services; (ii) the price trend of the types of materials required; (iii) the complexity of the project; (iv) the estimated number and types of workers required; (v) the estimated number and types of machines required; (vi) the completion time requested by customers; (vii) the availability of our manpower and resources; (viii) subcontracting expenses; and (ix) the prevailing market conditions. For further details on our pricing strategy, please refer to the paragraph headed “Business – Pricing strategy” in this listing document.

Our profitability is therefore dependent on our ability to manage our staff costs and secure services from our subcontractors with competitive fees at or below our estimated costs, as well as our ability to execute the projects efficiently.

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There is no assurance that our actual costs incurred will not exceed the estimated costs. The actual amount of costs incurred in completing a project may be adversely affected by many factors, including adverse weather conditions, difficult geological conditions, shortage and cost escalation of labour and materials, customers' variation orders, accidents, unforeseen site conditions, unanticipated technical problems, departure of key project management and supervision personnel involved, non-performance by our subcontractors, and other unforeseen problems and circumstances. Any under-estimation of costs, delay or other circumstances resulting in cost overruns may adversely affect our profitability, business operation and financial performance.

Our success rate on project tendering

During the Track Record Period, we undertake slope works on a project-by-project basis. Therefore, our customers are under no obligation to continue to award contracts to us and there is no guarantee that we will be able to secure new contracts in the future. Accordingly, the number and scale of contracts and the amount of revenue that we are able to derive therefrom are affected by a series of factors including but not limited to changes in our customers' businesses, changes in market conditions and changes in Government policies.

Consequentially, our revenue may vary significantly from period to period, and it may be difficult to forecast the volume of our future business. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we recorded a tender success rate of approximately 52.9%, 52.4%, 59.3% and 52.6%, respectively. Our tender success rate is affected by a range of factors including our pricing and tender strategy, competitors' tender and pricing strategy, level of competition and our customers' evaluation standards. There is no guarantee that we will be able to achieve a tender success rate similar to those during the Track Record Period in the future.

Depending on the then market condition and competitive landscape, we may have to lower our pricing or adjust our tender strategy in order to maintain the competitiveness of our tenders. In the event that our Group fails to secure new projects from our customers of contract values, size and/or margins comparable to existing ones, our business and financial performance and results of operations will be materially and adversely affected.

Availability and performance of our subcontractors

Depending on the availability of our labour resources and the types of specialised works involved, we have from time to time subcontracted a portion of our works to subcontractors. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we incurred subcontracting expenses of approximately HK\$24.8 million, HK\$43.2 million, HK\$61.2 million and HK\$36.5 million, respectively.

FINANCIAL INFORMATION

There is no assurance that the quality of services of our subcontractors can meet the requirements of our Group or our customers. There is no assurance that we are able to monitor the performance of our subcontractors as directly and efficiently as with our direct labour. Therefore, the engagement of subcontractors exposes us to the risks associated with non-performance, late performance or sub-standard performance of our subcontractors. Since we remain accountable to our customers for the performance and quality of services rendered by our subcontractors, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors' unsatisfactory performance. Such events could adversely affect our reputation, business operation, and financial position.

In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

Fluctuation in our cost of services

Our cost of services mainly comprise (i) direct labour costs, (ii) subcontracting expenses, and (iii) direct material costs. Our main purchases include subcontracting expenses as well as direct material costs. Please refer to the paragraph headed "Business – Our suppliers" in this listing document for further details on our suppliers.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of direct labour costs, subcontracting expenses and direct material costs (being the major components of our costs of services) on our profit before tax during the Track Record Period. The hypothetical fluctuation rates for direct labour costs and subcontracting expenses are set at 0.1% and 8.4%, which correspond to the approximate minimum and maximum percentage changes in the average daily wages of concreters and general workers in Hong Kong, respectively, from 2015 to 2020 as stated in the Industry Report (please refer to the paragraph headed "Industry Overview – Potential challenges – Rising labour cost" in this listing document) and are therefore considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rates for direct material costs are set at 0.2% and 14.4%, which correspond to the approximate minimum and maximum percentage change for the price of Portland cement, concrete and steel reinforcements (being the major components of our direct material costs) in Hong Kong, respectively, from 2015 to 2020 as stated in the Industry Report (please refer to the paragraph headed "Industry Overview – Potential challenges – Fluctuating cost of materials in Hong Kong" in this listing document) and are therefore considered reasonable for the purpose of this sensitivity analysis.

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Hypothetical fluctuations in our direct labour costs	-0.1%	-8.4%	+0.1%	+8.4%
Increase/(decrease) in profit before income tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2018	33	2,741	(33)	(2,741)
FY2019	48	4,017	(48)	(4,017)
FY2020	73	6,160	(73)	(6,160)
Six months ended 30 June 2021	36	3,039	(36)	(3,039)
Hypothetical fluctuations in our subcontracting expenses	-0.1%	-8.4%	+0.1%	+8.4%
Increase/(decrease) in profit before income tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2018	25	2,085	(25)	(2,085)
FY2019	43	3,633	(43)	(3,633)
FY2020	61	5,138	(61)	(5,138)
Six months ended 30 June 2021	37	3,070	(37)	(3,070)
Hypothetical fluctuations in our direct material costs	-0.2%	-14.4%	+0.2%	+14.4%
Increase/(decrease) in profit before income tax (Note)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2018	32	2,272	(32)	(2,272)
FY2019	48	3,479	(48)	(3,479)
FY2020	92	6,648	(92)	(6,648)
Six months ended 30 June 2021	66	4,730	(66)	(4,730)

Note: Our profit before income tax was approximately HK\$19.1 million, HK\$11.5 million, and HK\$46.2 million and HK\$19.7 million for each of FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively.

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BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Please refer to note 1.2 and note 2.1 in the Accountants' Report in Appendix I to this listing document.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared in accordance with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 2 and note 3 in the Accountants' Report in Appendix I to this listing document.

Revenue from undertaking slope works contracts

Our Group undertakes slope works under contracts with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, our Group is contractually required to perform the services at the customers' specified sites that our Group's performance creates and enhances an asset that the customer controls as our Group performs. Revenue from slope works is therefore recognised over time using output method, i.e. based on surveys of undertaking slope works completed by our Group to date as certified by the customers or their appointed architects, surveyors or other representatives. In cases where the payment certificates do not take place as at our Group's reporting period-end dates or do not exactly cover periods up to the reporting period-end dates, the revenue for the period from the last payment certificates up to the reporting period-end dates is estimated based on the actual amounts of works performed by our Group during such period as indicated by the internal progress reports, the payment applications prepared by our Group and the next payment certificates, if any, issued by our Group's customers or other representatives appointed by our Group's customers that takes place subsequent to the reporting period-end dates. The management of our Group considers that output method would faithfully depict our Group's performance towards complete satisfaction of these performance obligation under HKFRS 15.

FINANCIAL INFORMATION

SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of profit or loss and other comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountants' Report set out in Appendix I to this listing document:

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
Revenue	111,245	183,903	276,006	120,844	154,791
Cost of services	<u>(89,660)</u>	<u>(150,546)</u>	<u>(224,410)</u>	<u>(98,228)</u>	<u>(125,996)</u>
Gross profit	21,585	33,357	51,596	22,616	28,795
Other income, gains and losses, net	(3)	224	4,784	340	1,493
Administrative expenses	(2,374)	(5,302)	(8,672)	(5,174)	(4,928)
Listing expenses	(139)	(16,769)	–	–	–
Transfer of Listing and related expenses	–	–	(1,449)	–	(5,657)
Finance costs	<u>–</u>	<u>(34)</u>	<u>(15)</u>	<u>(6)</u>	<u>(10)</u>
Profit before income tax	19,069	11,476	46,244	17,776	19,693
Income tax expense	<u>(2,975)</u>	<u>(4,610)</u>	<u>(6,894)</u>	<u>(3,070)</u>	<u>(3,908)</u>
Profit and total comprehensive income for the year/period	<u>16,094</u>	<u>6,866</u>	<u>39,350</u>	<u>14,706</u>	<u>15,785</u>

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was fully derived from the provision of slope works to external customers. For detailed breakdown of our revenue during the Track Record Period by sector (private or public), please refer to the paragraph headed “Business – Business overview” and “Business – Projects undertaken during the Track Record Period” in this listing document.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of the change in the amount of our revenue during the Track Record Period.

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Cost of services

The table below sets forth a breakdown of our cost of services during the Track Record Period:

	FY2018		FY2019		FY2020		Six months ended 30 June			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	2020 HK\$'000	%	2021 HK\$'000	%
	(Unaudited)									
Direct labour costs	32,631	36.4	47,819	31.8	73,332	32.7	29,239	29.8	36,180	28.7
Subcontracting expenses	24,820	27.7	43,248	28.7	61,163	27.3	28,887	29.4	36,546	29.0
Direct material costs	15,781	17.6	24,158	16.0	46,165	20.6	21,946	22.3	32,844	26.1
Site planning and surveying expenses	5,183	5.8	16,745	11.1	18,068	8.1	5,599	5.7	2,573	2.0
Motor vehicles expenses	2,981	3.3	6,160	4.1	6,565	2.9	3,178	3.2	6,045	4.8
Machinery rental expenses	2,118	2.4	3,782	2.5	5,722	2.5	3,223	3.3	5,827	4.6
Testing fee	674	0.8	779	0.5	465	0.2	111	0.1	741	0.6
Depreciation	566	0.6	579	0.4	1,184	0.5	498	0.5	780	0.6
Transportation expenses	466	0.5	592	0.4	631	0.3	482	0.5	151	0.1
Repair and maintenance	307	0.3	267	0.2	528	0.2	422	0.4	147	0.1
Others	4,133	4.6	6,417	4.3	10,587	4.7	4,643	4.8	4,162	3.4
Total	89,660	100.0	150,546	100.0	224,410	100.0	98,228	100.0	125,996	100.0

Our cost of services during the Track Record Period comprised:

- (a) direct labour costs, which were costs of our staff directly involved in the provision of our services, including project management personnel as well as site workers for carrying out site works;
- (b) subcontracting expenses, which were costs of engaging subcontractors for carrying out works undertaken by us. Depending on the availability of our labour resources and the types of specialised works involved, we had from time to time subcontracted a portion of our works to subcontractors;
- (c) direct material costs, which represented costs borne by us for purchasing construction materials required for the performance of works. Our direct material included cement and concrete, steel reinforcement and landscape materials;
- (d) site planning and surveying expenses, which mainly represented costs for engaging engineers who were arranged by our customers for conducting inspection on the site condition and the survey costs for certain slope works processes;
- (e) motor vehicles expenses, which represented costs in relation to the use of our motor vehicles and the cost paid to our customers for arranging transportation during the provision of our slope works for its projects;

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- (f) machinery rental expenses, which mainly represented rental costs for renting machinery necessary for carrying out our slope works;
- (g) testing fee, which represented costs for testing and checking of the construction materials such as concrete and steel related products;
- (h) depreciation, which mainly represented depreciation charges for our machinery and motor vehicles;
- (i) transportation expenses, which mainly represented expenses for transporting construction wastes resulting from our construction works and fees for transporting our construction materials and machinery to work sites;
- (j) repair and maintenance, which mainly represented repair and maintenance expenses for our motor vehicles and machinery; and
- (k) others, which included various miscellaneous expenses relevant to the provision of our works such as insurance, government levy, utility, sundry expenses, etc.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of material fluctuations in our cost of services.

Other income, gains and losses, net

The table below sets forth a breakdown of our other income, gains and losses, net during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
Bank interest income	–	41	450	260	50
(Loss)/gain on disposal of property, plant and equipment	(4)	182	(5)	–	114
Government grant	–	–	4,332	79	1,321
Sundry income	1	1	7	1	8
	<u>1</u>	<u>1</u>	<u>7</u>	<u>1</u>	<u>8</u>
	<u>(3)</u>	<u>224</u>	<u>4,784</u>	<u>340</u>	<u>1,493</u>

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Our other income, gains and losses, net during the Track Record Period mainly comprised:

- (a) bank interest income, which mainly represented the interest income received from various banks on our short-term bank deposits. During FY2019, FY2020 and the six months ended 30 June 2021, our short-term bank deposits carried interest at 0.50% to 2.77%, 0.35% to 0.50% and 0.25% per annum with a maturity of one month, three months and three months, respectively;
- (b) loss or gain on disposal of property, plant and equipment, which was recognised due to the disposal of our motor vehicles and furniture and fixtures due to replacement during the Track Record Period; and
- (c) government grants, our Group recognised the subsidies of approximately HK\$4.3 million in relation to (i) Construction Industry Anti-epidemic Fund launched by the Construction Industry Council, which offered a one-off subsidy to eligible contractors, subcontractors and consultants of the construction industry; (ii) a one-off subsidy for registered owners of each eligible goods vehicle provided by the Transport Department; and (iii) Employment Support Scheme for Regular Employees and Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government which offered two tranches of financial support to employers for retaining their employees as part of the relief measures on COVID-19 during FY2020. During the six months ended 30 June 2021, our Group recognised the subsidies of approximately HK\$1.3 million in relation to Construction Innovation and Technology Fund launched by the Construction Industry Council and Employment Support Scheme for Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government as part of the relief measures on COVID-19.

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for a discussion of material fluctuations in our other income, gains and losses, net.

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Administrative expenses

The table below sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2018		FY2019		FY2020		Six months ended 30 June			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	FY2020 (Unaudited)		FY2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs (including directors' emoluments)	1,622	68.3	2,556	48.2	4,556	52.5	2,434	47.0	2,182	44.3
Motor vehicles expenses	244	10.3	306	5.8	312	3.6	146	2.8	204	4.1
Operating lease charges in respect of leased premises	212	8.9	-	-	-	-	-	-	-	-
Legal and professional fees	101	4.3	1,201	22.7	2,980	34.4	2,166	41.9	2,175	44.1
Depreciation	48	2.0	558	10.5	474	5.5	280	5.4	141	2.9
Bank charges	2	0.1	211	4.0	12	0.1	9	0.2	14	0.3
Others	145	6.1	470	8.8	338	3.9	139	2.7	212	4.3
Total	2,374	100.0	5,302	100.0	8,672	100.0	5,174	100.0	4,928	100.0

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Our administrative expenses during the Track Record Period comprised:

- (a) staff costs (including directors' emoluments), which included salaries and benefits provided to our Directors and our administrative and office staff;
- (b) motor vehicle expenses, which represented operating costs in relation to the use of our motor vehicles for administrative purpose;
- (c) operating lease charges in respect of leased premise, which represented rental costs, office management fees and rates in respect of our leased office premises;
- (d) legal and professional fees, which mainly represented professional fees incurred after the GEM Listing such as compliance advisor fee, annual listing fee and auditor's remuneration;
- (e) depreciation, which represented depreciation charges for right-of-use assets, furniture and fixtures and motor vehicles used for administrative purpose;
- (f) bank charges, which represented the charges for banking services such as arrangement fee for bank confirmation and banking facility;
- (g) others, which represented telephone & fax, printing and stationery, entertainment expenses, utilities, etc.

Income tax expense

Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, Hong Kong profits tax of A-City Workshop, a subsidiary of our Group, is calculated in accordance with the two-tiered profits tax rates regime.

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The taxation for the Track Record Period can be reconciled to the profit before income tax as follows:

	FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000	Six months ended 30 June	
				2020 HK\$'000	2021 HK\$'000
Profit before income tax	19,069	11,476	46,244	17,776	19,693
Tax at Hong Kong profit tax rate of 16.5%	3,147	1,894	7,630	2,933	3,249
Adjustments:					
Tax effect of non-taxable revenue	–	–	(789)	(43)	(230)
Tax effect of non-deductible expenses	23	2,881	236	133	987
Tax effect of tax losses not recognised	–	–	–	212	67
Effect of two-tiered profits tax rates regime	(165)	(165)	(165)	(165)	(165)
Over provision in respect of prior years	–	–	(18)	–	–
Statutory tax concession	(30)	–	–	–	–
Income tax expenses	2,975	4,610	6,894	3,070	3,908

As at 30 June 2021, our Group had unused tax losses of our Company of approximately HK\$406,000, which are available for offset against future profits that may be carried forward indefinitely and are subject to approval from the Inland Revenue Department.

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year/period divided by profit before income tax and transfer of listing and related expenses/listing expenses) were as follows:

	FY2018	FY2019	FY2020	Six months ended 30 June	
				2020	2021
Effective tax rate	15.5%	16.3%	14.5%	17.3%	15.4%

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2021 compared with six months ended 30 June 2020

Revenue

Our revenue increased from approximately HK\$120.8 million for the six months ended 30 June 2020 to approximately HK\$154.8 million for the six months ended 30 June 2021, representing an increase of approximately HK\$33.9 million or 28.1%. Such increase in our revenue was mainly due to (i) the increase in the number of projects undertaken by us from 21 for the six months ended 30 June 2020 to 27 for the six months ended 30 June 2021; and (ii) an increase in projects of relatively larger scale (i.e. projects with revenue recognition of HK\$10 million or above during the period) from 4 projects for the six months ended 30 June 2020 to 5 projects for the six months ended 30 June 2021.

In particular, we were able to commence substantial work for new sizeable projects after June 2020 and contributed our revenue during the six months ended 30 June 2021, namely, (i) Project #12, which contributed approximately HK\$34.9 million to our revenue during the six months ended 30 June 2021; (ii) Project #05, which contributed approximately HK\$26.5 million to our revenue during the six months ended 30 June 2021; (iii) Project #24, which contributed approximately HK\$13.6 million to our revenue during the six months ended 30 June 2021; and (iv) Project #28, which contributed approximately HK\$9.0 million to our revenue during the six months ended 30 June 2021.

Cost of services

Our cost of services increased from approximately HK\$98.2 million for the six months ended 30 June 2020 to approximately HK\$126.0 million for the six months ended 30 June 2021, representing an increase of approximately HK\$27.8 million or 28.3%. Our cost of services mainly includes direct labour costs, subcontracting expenses and direct material costs.

The following is a discussion of the changes in the key components of our cost of services for the six months ended 30 June 2021 compared to the six months ended 30 June 2020:

- (i) Our direct labour costs increased from approximately HK\$29.2 million for the six months ended 30 June 2020 to approximately HK\$36.2 million for the six months ended 30 June 2021, representing an increase of approximately HK\$6.9 million or 23.7%. Such increase was mainly attributable to the increase in our site workers in order to cope with our business expansion. The monthly average number of site workers during the six months ended 30 June 2021 was 188 while there was only 158 during the six months ended 30 June 2020.

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- (ii) Our subcontracting expenses increased from approximately HK\$28.9 million for the six months ended 30 June 2020 to approximately HK\$36.5 million for the six months ended 30 June 2021, representing an increase of approximately HK\$7.7 million or 26.5%. Such increase was generally in line with the increase in our revenue during the six months ended 30 June 2021 as discussed above.
- (iii) Our direct material costs increased from approximately HK\$21.9 million for the six months ended 30 June 2020 to approximately HK\$32.8 million for the six months ended 30 June 2021, representing an increase of approximately HK\$10.9 million or 49.7%. Such increase was mainly attributable to the increase in the amount of materials required as a result of the increase in our revenue for the six months ended 30 June 2021 as discussed above. In particular, we have incurred material costs of approximately HK\$18.2 million for Project #05, Project #12, Project #24 and Project #28 during the six months ended 30 June 2021, which were substantially performed after June 2020.

Gross profit and gross profit margin

Our gross profit increased from approximately HK\$22.6 million for the six months ended 30 June 2020 to approximately HK\$28.8 million for the six months ended 30 June 2021, representing an increase of approximately HK\$6.2 million or 27.3%. Such increase was primarily attributable to the increase in our revenue for the six months ended 30 June 2021. Our gross profit margin remained relatively stable at approximately 18.7% and 18.6% for the six months ended 30 June 2020 and 2021, respectively.

Other income, gains and losses, net

Our other income, gains and losses, net increased from approximately HK\$0.3 million for the six months ended 30 June 2020 to approximately HK\$1.5 million for the six months ended 30 June 2021, representing an increase of approximately HK\$1.2 million. Such increase was mainly due to the increase in the government grants received by our Group of approximately HK\$1.2 million for the six months ended 30 June 2021.

Administrative expenses

Our administrative expenses decreased from approximately HK\$5.2 million for the six months ended 30 June 2020 to approximately HK\$4.9 million for the six months ended 30 June 2021 mainly due to the decrease in our staff bonus.

Income tax expense

Our income tax expense increased from approximately HK\$3.1 million for the six months ended 30 June 2020 to approximately HK\$3.9 million for the six months ended 30 June 2021, representing an increase of approximately HK\$0.8 million or 27.3%. The increase was mainly driven by the increase of our profit before income tax (before transfer of listing and related expenses which is not tax deductible) as a result of all of the aforesaid and in particular the increase in revenue and gross profit.

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Profit and total comprehensive income for the period

As a result of the aforesaid, our profit and total comprehensive income increased from approximately HK\$14.7 million for the six months ended 30 June 2020 to approximately HK\$15.8 million for the six months ended 30 June 2021, while such increase was partially offset by the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million for the six months ended 30 June 2021.

FY2020 compared with FY2019

Revenue

Our revenue increased significantly from approximately HK\$183.9 million during FY2019 to approximately HK\$276.0 million during FY2020, representing a significant increase of approximately HK\$92.1 million or approximately 50.1%. Such increase in our revenue was primarily due to (i) the increase in the number of projects undertaken by us during FY2020; and (ii) an increase in our revenue derived from projects of relatively larger scale as illustrated in the tables below:

	FY2019	FY2020
	<i>No. of</i>	<i>No. of</i>
	<i>projects</i>	<i>projects</i>
Revenue recognised		
HK\$10.0 million or above	6	9
HK\$5.0 million to below HK\$10.0 million	2	1
HK\$1.0 million to below HK\$5.0 million	5	8
Below HK\$1.0 million	<u>5</u>	<u>10</u>
Total	<u><u>18</u></u>	<u><u>28</u></u>

In particular, we were able to secure new sizeable projects during FY2020, namely, (i) Project #03, which contributed approximately HK\$54.9 million to our revenue during FY2020; (ii) Project #02, which contributed approximately HK\$58.1 million to our revenue during FY2020; and (iii) Project #05, which contributed approximately HK\$38.4 million to our revenue during FY2020.

Cost of services

Our cost of services increased from approximately HK\$150.5 million for FY2019 to approximately HK\$224.4 million for FY2020, representing a significant increase of approximately 49.1% or approximately HK\$73.9 million. Our cost of services mainly includes direct labour costs, subcontracting expenses, direct material costs and site planning and surveying expenses.

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The following is a discussion of the changes in the key components of our cost of services in FY2020 compared to FY2019:

- (i) Our direct labour costs increased from approximately HK\$47.8 million for FY2019 to approximately HK\$73.3 million for FY2020, representing an increase of approximately 53.4%. Such increase was mainly attributable to the increase in the headcount of our workers, including our project management team and site workers, in order to cope with our business expansion. In 2020, we have recruited four site foreman, one assistant foreman and one labour officer to enhance our project management team. In addition, the monthly average number of site workers in FY2020 was 183 while there was only 111 in FY2019.
- (ii) Our subcontracting expenses increased from approximately HK\$43.2 million for FY2019 to approximately HK\$61.2 million for FY2020, representing an increase of approximately 41.4%. Such increase was in line with the increase in our revenue during FY2020 as discussed above.
- (iii) Our direct material costs increased from approximately HK\$24.2 million for FY2019 to approximately HK\$46.2 million for FY2020, representing an increase of approximately 91.1%. Such increase was mainly attributable to the increase in the amount of materials required as a result of the increase in our revenue for FY2020 as discussed above. In particular, we have incurred a relatively higher amount of materials costs of approximately HK\$14.1 million for Project #03 due to its project specifications, which was awarded to our Group in January 2020.
- (iv) Our site planning and surveying expenses slightly increased from approximately HK\$16.7 million for FY2019 to approximately HK\$18.1 million for FY2020, representing an increase of approximately 7.9%. Such increase was mainly due to the increase in the number of our sizeable projects while the less-than-proportionate increase in our site planning and surveying expenses as compared to the increase in revenue was mainly due to the increase in the use of our own staff for conducting site inspection instead of engaging engineers who were arranged by our customers for smaller size projects.

Gross profit and gross profit margin

Our gross profit increased from approximately HK\$33.4 million for FY2019 to approximately HK\$51.6 million for FY2020, representing a significant increase of approximately HK\$18.2 million or 54.7%. Such increase in gross profit was mainly due to the increase in our revenue. Our gross profit margin in FY2020 remained relatively stable at approximately 18.7% in FY2020 as compared to approximately 18.1% in FY2019, respectively.

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Other income, gains and losses, net

Our other income, gains and losses, net increased from approximately HK\$0.2 million for FY2019 to approximately HK\$4.8 million for FY2020, representing an increase of approximately HK\$4.6 million or 2,035.7%. Such increase was primarily attributable to the government grants received by our Group of approximately HK\$4.3 million mainly in relation to the Employment Support Scheme for Regular Employees and Construction Sector (Casual Employees) under Anti-epidemic Fund which offered two tranches of financial support to employers for retaining their employees during FY2020.

Administrative expenses

Our administrative expenses increased by approximately HK\$3.4 million or 63.6% from approximately HK\$5.3 million for FY2019 to approximately HK\$8.7 million for FY2020. Such increase in administrative expenses was mainly contributed by (i) the increase in Directors' salaries and allowance of approximately HK\$1.4 million mainly due to (a) the addition of independent non-executive Directors of approximately HK\$0.4 million and (b) the recognition of the effort of executive Directors for our business growth in FY2020 of approximately HK\$1.0 million, and (ii) an increase in legal and professional fees of approximately HK\$1.8 million such as compliance adviser fee, legal adviser fee, auditor's remuneration and annual listing fee.

Income tax expense

Our income tax expenses increased from approximately HK\$4.6 million for FY2019 to approximately HK\$6.9 million for FY2020, representing an increase of approximately HK\$2.3 million or 49.5%. The increase was primarily driven by the increase of our profit before income tax as a result of all of the aforesaid and in particular the increase in revenue and gross profit.

Profit and total comprehensive income for the year

As a result of the aforesaid as well as the decrease in the listing expenses in relation to the GEM Listing from approximately HK\$16.8 million for FY2019 to nil for FY2020, our profit and total comprehensive income for the year increased by approximately HK\$32.5 million or 473.1% from approximately HK\$6.9 million for FY2019 to approximately HK\$39.4 million for FY2020.

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FY2019 compared with FY2018

Revenue

Our revenue increased significantly from approximately HK\$111.2 million during FY2018 to approximately HK\$183.9 million during FY2019, representing an increase of approximately HK\$72.7 million or approximately 65.3%. Such increase in our revenue was primarily due to (i) the increase in the number of projects undertaken by us during FY2019; and (ii) an increase in our revenue derived from projects of relatively larger scale as illustrated in the tables below:

	FY2018	FY2019
	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised		
HK\$10.0 million or above	4	6
HK\$5.0 million to below HK\$10.0 million	2	2
HK\$1.0 million to below HK\$5.0 million	6	5
Below HK\$1.0 million	4	5
 Total	16	18

In particular, we were able to secure new sizeable projects during FY2019, namely, (i) Project #08, which contributed approximately HK\$18.0 million to our revenue during FY2019; and (ii) Project #07, which contributed approximately HK\$28.8 million to our revenue during FY2019.

In addition, we derived a higher amount of revenue from two projects (i.e. Project #01 and Project #06, details of which are set out in the paragraph headed “Business – Projects undertaken during the Track Record Period” in this listing document) that were ongoing in both FY2018 and FY2019, which was due to our actual work progress under the relevant contracts as certified by our customers:

Project	Date of commencement of works	Actual or expected date of completion of works	Amount of revenue recognised	
			FY2018	FY2019
			<i>HK\$'000</i>	<i>HK\$'000</i>
Project #01	November 2017	April 2020	28,556	48,546
Project #06	November 2018	January 2020	447	26,419

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Cost of services

Our cost of services increased from approximately HK\$89.7 million for FY2018 to approximately HK\$150.5 million for FY2019, representing an increase of approximately 67.9%. Our cost of services mainly includes direct labour costs, subcontracting expenses, direct material costs and site planning and surveying expenses.

The following is a discussion of the changes in the key components of our cost of services in FY2019 compared to FY2018:

- (i) Our direct labour costs increased from approximately HK\$32.6 million for FY2018 to approximately HK\$47.8 million for FY2019, representing an increase of approximately 46.5%. Such increase was mainly attributable to the increase in our project management team and site workers in order to cope with our business expansion. The monthly average number of site workers in FY2019 was 111 while there was only 79 in FY2018.
- (ii) Our subcontracting expenses increased from approximately HK\$24.8 million for FY2018 to approximately HK\$43.2 million for FY2019, representing an increase of approximately 74.2%. Such increase was mainly attributable to the increase in the amount of works outsourced to subcontractors for carrying out site work as a result of our growth in business during FY2019. Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain slope works. We engaged our subcontractors mainly for performing soil nail works, shotcreting works and landscape works. In particular, we have increased the use of our subcontractor for Project #07 and Project #08 having considered the availability of our own labour resources.
- (iii) Our direct material costs increased from approximately HK\$15.8 million for FY2018 to approximately HK\$24.2 million for FY2019, representing an increase of approximately 53.1%. Such increase was mainly due to the increase in our revenue. In particular, in line with the size of the projects, substantial amount of materials were purchased by our Group in relation to those projects that we undertook substantial works in FY2019, namely Project #01 and Project #07.
- (iv) Our site planning and surveying expenses increased from approximately HK\$5.2 million for FY2018 to approximately HK\$16.7 million for FY2019, representing an increase of approximately 223.1%. We would generally conduct certain site preparation works which typically include installing temporary hoarding, performing site planning and surveying and setting up site offices. Such increase was mainly due to the increase in the use of engineers who were arranged by our customer for inspection on sites condition and surveying services for two projects, namely Project #13 and Project #07. Such two projects were commenced in early 2019.

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Gross profit and gross profit margin

Our gross profit increased by approximately HK\$11.8 million or 54.5%, from approximately HK\$21.6 million for FY2018 to approximately HK\$33.4 million for FY2019, which was mainly due to the increase in our revenue as discussed above. Our gross profit margin slightly decreased from approximately 19.4% for FY2018 to approximately 18.1% for FY2019, which was because we undertook works for two relatively lower gross profit margin projects during FY2019, namely, Project #07 and Project #08. We have increased the use of our subcontractors for Project #07 and Project #08 having considered the availability of our own labour resources, resulting in the lower gross profit margin of the aforesaid projects. Our Directors consider that holding all else the same, the engagement of subcontractors would generally lead to a lower profit margin for our Group, as a profit markup is generally factored in the fees charged by subcontractors.

Other income, gains and losses, net

Our other income, gains and losses, net turned from approximately a loss of approximately HK\$3,000 for FY2018 to a gain of approximately HK\$0.2 million for FY2019. Such difference was mainly due to the gains on disposal of property, plant and equipment of approximately HK\$0.2 million during FY2019.

Administrative expenses

Our administrative expenses increased by approximately HK\$2.9 million or 123.3% from approximately HK\$2.4 million for FY2018 to approximately HK\$5.3 million for FY2019. Such increase in administrative expenses was mainly contributed by (i) the increase in staff costs as a result of the increase of our finance and administrative staff in relation to the increased administrative works in the preparation of the GEM Listing and the general increment in salaries for our Directors and finance and administration staff, and (ii) an increase in bank charges for arranging banking facilities to support our daily operation, depreciation expenses and professional fee such as auditor's remuneration, annual internal control review and safety audit.

Income tax expense

Our income tax expenses increased from approximately HK\$3.0 million for FY2018 to approximately HK\$4.6 million for FY2019, representing an increase of approximately HK\$1.6 million or 55.0%. Such increase was primarily attributable to the increase in the tax effect of non-deductible expenses of approximately HK\$2.9 million during FY2019, while such increase was partially offset by the decrease in profit before income tax.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year decreased from approximately HK\$16.1 million for FY2018 to approximately HK\$6.9 million for FY2019 as a result of all of the aforesaid and the increase in our listing expenses in relation to the GEM Listing from approximately HK\$0.1 million for FY2018 to approximately HK\$16.8 million for FY2019.

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LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, amounts due to Directors, cash generated from our operations and proceeds of the GEM Share Offer. Our primary liquidity requirements are to finance our working capital needs, capital expenditure and the growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity.

As at 31 October 2021, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had cash and bank balances of approximately HK\$117.4 million and we had no unutilised banking facilities.

Cash flows

The following table sets forth a summary of our cash flows for the year/period indicated:

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2020	2021
				<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Operating profit before working capital changes	19,687	12,424	47,529	18,300	20,460
Change in working capital	(6,307)	(6,959)	(18,224)	(19,799)	(7,684)
Income tax paid	(6,164)	–	(9,956)	(4,621)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) operating activities	7,216	5,465	19,349	(6,120)	12,776
Net cash used in investing activities	(3,962)	(1,843)	(2,115)	(2,223)	(71)
Net cash (used in)/generated from financing activities	(2,000)	50,645	(404)	(252)	(139)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents	1,254	54,267	16,830	(8,595)	12,566
Cash and cash equivalents at the beginning of year/period	11,180	12,434	66,701	66,701	83,531
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at the end of year/period	<u>12,434</u>	<u>66,701</u>	<u>83,531</u>	<u>58,106</u>	<u>96,097</u>

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Cash flows from operating activities

Our operating cash inflow is primarily derived from our revenue from undertaking slope works, whereas our operating cash outflow mainly includes payment for staff costs, subcontracting expenses, purchase of construction materials as well as other working capital needs.

Net cash generated from operating activities primarily consisted of profit before income tax adjusted for depreciation, loss/(gain) on disposal of property, plant and equipment, written-off of property, plant and equipment, interest expense on bank overdrafts, finance charges on lease liabilities, interest income and the effect of changes in working capital such as changes in contract assets, trade and other receivables and trade and other payables.

The following table sets forth a reconciliation of our profit before income tax to net cash generated from operating activities:

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2020	2021
				<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Profit before income tax	19,069	11,476	46,244	17,776	19,693
Adjustments for:					
Depreciation	614	1,137	1,658	778	921
Loss/(gain) on disposal of property, plant and equipment	4	(182)	5	–	(114)
Written-off of property, plant and equipment	–	–	57	–	–
Interest expense on bank overdrafts	–	4	–	–	–
Finance charges on lease liabilities	–	30	15	6	10
Interest income	–	(41)	(450)	(260)	(50)
	<u>19,687</u>	<u>12,424</u>	<u>47,529</u>	<u>18,300</u>	<u>20,460</u>
Operating profit before working capital changes					
(Increase)/decrease in contract assets	(6,129)	(4,065)	(29,576)	(10,905)	4,242
(Increase)/decrease in trade and other receivables	(2,197)	(9,854)	(5,534)	(3,352)	5,328
Increase/(decrease) in trade and other payables	<u>2,019</u>	<u>6,960</u>	<u>16,886</u>	<u>(5,542)</u>	<u>(17,254)</u>
Cash generated from/(used in) operations	13,380	5,465	29,305	(1,499)	12,776
Income tax paid	<u>(6,164)</u>	<u>–</u>	<u>(9,956)</u>	<u>(4,621)</u>	<u>–</u>
Net cash generated from/(used in) operating activities	<u><u>7,216</u></u>	<u><u>5,465</u></u>	<u><u>19,349</u></u>	<u><u>(6,120)</u></u>	<u><u>12,776</u></u>

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For FY2018, FY2019, FY2020 and the six months ended 30 June 2021, the respective differences between our profit before income tax and net cash generated from operating activities were mainly due to the changes in working capital needs in our projects, in particular the amount and timing of billing to and receipts from our customers as well as the amount and timing of payment to our suppliers. We did not incur cash outflow for tax paid in FY2019 and the six months ended 30 June 2021 because we have settled the final tax for 2018/19 and provisional tax for 2019/20 in January 2020 according to the notice of assessment issued by the Inland Revenue Department in December 2019 and settled the final tax for 2019/20 and provisional tax for 2020/21 in late 2020.

We recorded net cash used in operating activities of approximately HK\$6.1 million for the six months ended 30 June 2020, which were mainly due to the increase in contract assets and the decrease in trade and other payables while we recorded net cash generated from operating activities of approximately HK\$12.8 million for the six months ended 30 June 2021 which were mainly due to the decrease in contract assets and trade and other receivables.

Our Directors considered that our net cash used in operating activities for the six months ended 30 June 2020 was primarily due to the temporary effect owing to the timing of certification from our customers as well as the timing of payments to our suppliers and would likely turn to cash inflows upon the certification from and billing to our customers of our works as well as our continuous profitable operation, which was evidenced by our cash flows from operating activities turned from net cash used in operating activities for six months ended 30 June 2020 to net cash generated from operating activities for FY2020 and the six months ended 30 June 2021.

Our Group improves our net operating cash outflow position by putting more efforts for the certification from and billing to our customers of our works, we will follow up with our customers on the certification process of our work performed on a weekly basis. We will also perform monthly review on our trade receivables and contract assets and aging analysis. In addition, our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements.

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Cash flows from investing activities

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2020	2021
				<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Interest received	–	41	450	260	50
Purchase of property, plant and equipment	(306)	(2,073)	(2,570)	(1,413)	(329)
Proceeds from disposal of property, plant and equipment	50	189	5	–	208
Deposit paid for purchase of property, plant and equipment	–	–	–	(1,070)	–
Advances to directors	(3,706)	–	–	–	–
Net cash used in investing activities	<u>(3,962)</u>	<u>(1,843)</u>	<u>(2,115)</u>	<u>(2,223)</u>	<u>(71)</u>

During the Track Record Period, our cash inflows from investing activities primarily include interest received and proceeds from disposal of property, plant and equipment, whereas our cash outflows from investing activities primarily includes purchase of property, plant and equipment, deposit paid for purchase of property, plant and equipment and advances to directors.

For FY2018, we recorded net cash used in investing activities of approximately HK\$4.0 million, which was mainly due to the cash advances by us to Mr. Sieh and Mr. Ho as their personal saving originally and subsequently reinvested such amount to our Group in FY2019 having considered the working capital needs for our Group's operation and the purchase of motor vehicles and the renovation of our office.

For FY2019, we recorded net cash used in investing activities of approximately HK\$1.8 million, which was mainly due to the purchase of motor vehicles, plant and machinery, and furniture and fixtures.

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For FY2020, we recorded net cash used in investing activities of approximately HK\$2.1 million, which was mainly due to the purchase of plant and machinery and motor vehicles.

For the six months ended 30 June 2020, we recorded net cash used in investing activities of approximately HK\$2.2 million, which was mainly due to the deposit paid for purchase of motor vehicles and air compressors and the purchase of a motor vehicle and an air compressor.

For the six months ended 30 June 2021, we recorded net cash used in investing activities of approximately HK\$71,000, which was mainly due to the purchase of a pneumatic drill and a survey equipment.

Cash flows from financing activities

	FY2018	FY2019	FY2020	Six months ended	
				30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
Interest paid	–	(34)	(15)	(6)	(10)
Proceeds from issuance of share capital	–	60,000	–	–	–
Share issuance expenses	(2,000)	(3,916)	–	–	–
Payment of lease liabilities	–	(474)	(389)	(246)	(129)
Repayment to our Directors	–	(4,931)	–	–	–
Net cash (used in)/generated from financing activities	<u>(2,000)</u>	<u>50,645</u>	<u>(404)</u>	<u>(252)</u>	<u>(139)</u>

During the Track Record Period, our cash inflows from financing activities primarily include proceeds from issuance of share capital, whereas our cash outflows from financing activities primarily includes interest paid, share issuance expenses, payment of lease liabilities and repayment to our Directors.

For FY2018, we recorded net cash used in financing activities of approximately HK\$2.0 million, which was attributable to the payment of listing expenses in relation to the GEM Listing in FY2018.

For FY2019, we recorded net cash generated from financing activities of approximately HK\$50.6 million, which was mainly due to the proceeds of HK\$60.0 million from issuance of share capital in the GEM Listing, while such net cash inflow was partially offset by the repayments to our Directors of approximately HK\$4.9 million and the payment of share issuance expenses of approximately HK\$3.9 million in relation to the GEM Listing in FY2019.

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For FY2020, we recorded net cash used in financing activities of approximately HK\$0.4 million, which was attributable to the payment of lease liabilities.

For the six months ended 30 June 2020, we recorded net cash used in financing activities of approximately HK\$0.3 million, which was primarily attributable to the payment of lease liabilities.

For the six months ended 30 June 2021, we recorded net cash used in financing activities of approximately HK\$0.1 million, which was primarily attributable to the payment of lease liabilities.

Capital Expenditure

The following table sets forth our Group's capital expenditure for the periods indicated:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold improvements	95	–	66	–
Furniture and fixtures	24	306	22	167
Plant and machinery	–	376	2,368	162
Motor vehicles	187	668	1,024	–
	<u>306</u>	<u>1,350</u>	<u>3,480</u>	<u>329</u>

Our capital expenditures amounted to approximately HK\$0.3 million, HK\$1.4 million, HK\$3.5 million and HK\$0.3 million for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively. Our capital expenditures on leasehold improvements amounted to approximately HK\$95,000 and HK\$66,000 for the renovation of our office during FY2018 and FY2020, respectively. Our capital expenditure on furniture and fixtures amounted to approximately HK\$24,000, HK\$0.3 million, HK\$22,000 and HK\$0.2 million during FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively, which mainly included the purchase of computers. Our capital expenditure on plant and machinery amounted to approximately HK\$0.4 million, HK\$2.4 million and HK\$0.2 million during FY2019 and FY2020 and the six months ended 30 June 2021, respectively, which included the purchase of drilling rigs, grout pumps, shotcrete machine, pneumatic drill, crane truck, air compressor and generators. Our capital expenditure on motor vehicles amounted to approximately HK\$0.2 million, HK\$0.7 million and HK\$1.0 million during FY2018, FY2019 and FY2020, respectively.

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WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources presently available to our Group, including our existing cash and cash equivalents, and cash generated from our operations, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this listing document.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30	As at 31
	2018	2019	2020	June	October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)
Current assets					
Contract assets	17,133	21,198	50,494	46,252	42,777
Trade and other receivables	8,932	16,744	22,311	16,983	14,271
Cash and bank balances	<u>12,434</u>	<u>66,701</u>	<u>83,531</u>	<u>96,097</u>	<u>117,371</u>
	<u>38,499</u>	<u>104,643</u>	<u>156,336</u>	<u>159,332</u>	<u>174,419</u>
Current liabilities					
Trade and other payables	7,576	14,536	31,362	14,108	22,222
Amounts due to directors	4,931	–	–	–	–
Lease liabilities	–	329	260	266	225
Current tax liabilities	<u>883</u>	<u>5,424</u>	<u>2,160</u>	<u>6,135</u>	<u>1,651</u>
	<u>13,390</u>	<u>20,289</u>	<u>33,782</u>	<u>20,509</u>	<u>24,098</u>
Net current assets	<u><u>25,109</u></u>	<u><u>84,354</u></u>	<u><u>122,554</u></u>	<u><u>138,823</u></u>	<u><u>150,321</u></u>

Our net current assets increased from approximately HK\$25.1 million as at 31 December 2018 to approximately HK\$84.4 million as at 31 December 2019, which was mainly attributable to the net proceeds from the GEM Listing.

Our net current assets increased to approximately HK\$122.6 million as at 31 December 2020, which was mainly due to the increase in current assets of approximately HK\$51.7 million, in particular, the increase in contract assets and cash and bank balances.

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Our net current assets further increased to approximately HK\$138.8 million as at 30 June 2021, which was mainly due to the decrease in current liabilities of approximately HK\$13.3 million, in particular, the decrease in trade and other payables.

As at 31 October 2021, being the latest practicable date for ascertaining our net current assets position, our net current assets increase from approximately HK\$138.8 million as at 30 June 2021 to approximately HK\$150.3 million as at 31 October 2021. Such increase was mainly due to the increase in our current assets of approximately HK\$15.1 million, in particular, the increase in cash and bank balances.

DISCUSSION ON SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our Group's property, plant and equipment mainly consist of (i) right-of-use assets in relation to the building, (ii) leasehold improvements, (iii) furniture and fixtures, (iv) plant and machinery, and (v) motor vehicles. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our property, plant and equipment amounted to approximately HK\$1.6 million, HK\$2.7 million, HK\$4.9 million and HK\$4.3 million, respectively.

The increase in our property, plant and equipment from approximately HK\$1.6 million as at 31 December 2018 to approximately HK\$2.7 million as at 31 December 2019 was mainly contributed by the combined effect of (i) the initial application of HKFRS 16 for the right-of-use assets in relation to our office of approximately HK\$0.8 million; (ii) depreciation charges of HK\$1.1 million; and (iii) the addition of furniture and fixtures, plant and machinery and motor vehicles of approximately HK\$1.4 million, in aggregate, during FY2019.

The increase in our property, plant and equipment to approximately HK\$4.9 million as at 31 December 2020 was mainly contributed by the combined effect of (i) depreciation charges of HK\$1.7 million; (ii) right-of-use assets in relation to our office of approximately HK\$0.5 million; and (iii) the addition of plant and machinery and motor vehicles of approximately HK\$2.4 million and HK\$1.0 million, respectively, during FY2020.

Our property, plant and equipment decreased slightly to approximately HK\$4.3 million as at 30 June 2021, which was mainly due to the combined effect of (i) depreciation charges of approximately HK\$0.9 million; (ii) the additions of furniture and fixtures and plant and machinery of approximately HK\$0.3 million in aggregate; and (iii) the disposals of furniture and fixtures of approximately HK\$94,000.

Contract assets

Our contract assets represent our Group's rights to considerations from customers for the provision of slope works, which arise when: (i) our Group completed the relevant services under such contracts but yet certified by the customers or their appointed architects, surveyors or other representatives; and (ii) our customers withhold certain amounts payable to our Group as retention money which is typically released after the defect liability period of construction projects. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to our customer.

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Our Group's contract assets are analysed as follows:

	As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unbilled revenue	15,927	17,847	38,573	30,596
Retention receivables	<u>1,206</u>	<u>3,351</u>	<u>11,921</u>	<u>15,656</u>
	<u><u>17,133</u></u>	<u><u>21,198</u></u>	<u><u>50,494</u></u>	<u><u>46,252</u></u>

Unbilled revenue

Our unbilled revenue increased from approximately HK\$15.9 million as at 31 December 2018 to approximately HK\$17.8 million as at 31 December 2019. Such increase was mainly due to the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 December 2019. In particular, some of the works of our major projects were performed close to the end of FY2019 and such works were not yet certified as at 31 December 2019, including Project #07, Project #09, Project #01 and Project #08, details of which are set out in the paragraph headed "Business – Projects undertaken during the Track Record Period" in this listing document, resulting in the increase in the contract assets as at 31 December 2019 as compared to that as at 31 December 2018. Out of approximately HK\$17.8 million of unbilled revenue as at 31 December 2019, approximately HK\$12.0 million was related to the aforesaid projects.

Our unbilled revenue further increased to approximately HK\$38.6 million as at 31 December 2020. Such increase was mainly due to the increase in the number of contract works that the relevant services were completed but were not yet certified as at 31 December 2020. In particular, some of the works of our major projects were performed close to the end of FY2020 and such works were not yet certified as at 31 December 2020, including Project #02, Project #03, Project #10, Project #12 and Project #17, details of which are set out in the paragraph headed "Business – Projects undertaken during the Track Record Period" in this listing document, resulting in the increase in the contract assets as at 31 December 2020 as compared to that in 2019. Out of approximately HK\$38.6 million of unbilled revenue as at 31 December 2020, approximately HK\$30.3 million was related to the aforesaid projects.

Our unbilled revenue decreased to approximately HK\$30.6 million as at 30 June 2021. Such decrease was mainly due to the decrease in the unbilled revenue for Project #02, #03, #17, and #10 of approximately HK\$24.0 million in aggregate as at 30 June 2021 as compared to that as at 31 December 2020, while such decrease was offset by the increase in contract works that the relevant services were completed but were not yet certified as at 30 June 2021, including Project #24, #26 and #28 of approximately HK\$16.4 million in aggregate.

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As at 31 December 2018, 2019 and 2020 and 30 June 2021, the ECL rate for contract assets were 0.26%, nil, nil and 0.05%, respectively. The ECL rate as at 31 December 2018 was mainly attributable to the unbilled revenue from the first project awarded by Geotech Engineering Limited to our Group in 2018 (i.e. Project #20) which had a relatively long aging as at 31 December 2018 and all unbilled revenue as at 31 December 2018 for Project #20 had been billed and settled during FY2019. The ECL rate for trade receivable and contract assets as at 31 December 2019 and 2020 were nil mainly because the default rates of the trade receivable and contract assets as at 31 December 2019 and 2020 were insignificant in view of their recoverability. During the Track Record Period and up to the Latest Practicable Date, our Group has not written off any unbilled revenue. During the Track Record Period, our Group did not reverse any revenue or unbilled revenue.

The following is a breakdown of our Group's unbilled revenue as at 31 December 2018, 2019 and 2020 and 30 June 2021 by projects:

Project code	As at 31 December			As at
	2018	2019	2020	30 June
	HK\$'000	HK\$'000	HK\$'000	2021
				HK\$'000
Project #01	3,557	2,900	–	–
Project #02	–	–	7,038	–
Project #03	–	–	13,335	3,491
Project #04	3,768	–	–	–
Project #05	–	–	1,000	634
Project #06	447	1,941	1,382	–
Project #07	–	4,511	–	–
Project #08	–	2,897	–	–
Project #09	–	1,703	–	–
Project #10	–	–	3,051	–
Project #11	2,525	–	–	–
Project #12	–	–	2,853	4,296
Project #13	–	2,075	712	922
Project #15	–	70	–	–
Project #16	993	350	350	–
Project #17	–	–	4,062	–
Project #19	197	–	–	–
Project #22	1,953	–	–	–
Project #24	–	–	–	5,875
Project #26	–	–	–	5,492
Project #27	–	1,400	2,347	–
Project #28	–	–	–	5,046
Other projects	2,487	–	2,443	4,840
	<u>15,927</u>	<u>17,847</u>	<u>38,573</u>	<u>30,596</u>

FINANCIAL INFORMATION

The following is an aging analysis of unbilled revenue as at 31 December 2018, 2019 and 2020 and 30 June 2021 and a breakdown of our Group's subsequent billing of our unbilled revenue as at 31 December 2018, 2019 and 2020, 30 June 2021 and up to the Latest Practicable Date:

	Subsequent billing of the unbilled revenue as at 31 December 2018 up to the Latest Practicable Date		Subsequent billing of the unbilled revenue as at 31 December 2019 up to the Latest Practicable Date		Subsequent billing of the unbilled revenue as at 31 December 2020 up to the Latest Practicable Date		Subsequent billing of the unbilled revenue as at 30 June 2021 up to the Latest Practicable Date	
	Unbilled revenue as at 31 December 2018	Unbilled revenue as at 31 December 2019	Unbilled revenue as at 31 December 2019	Unbilled revenue as at 31 December 2020	Unbilled revenue as at 31 December 2020	Unbilled revenue as at 30 June 2021	Unbilled revenue as at 30 June 2021	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
0-30 days	14,129	15,545	15,545	31,589	31,452	24,852	24,794	
31-60 days	1,798	802	802	4,829	4,829	5,232	5,232	
61-180 days	-	1,500	1,500	2,155	2,155	512	-	
Total	<u>15,927</u>	<u>17,847</u>	<u>17,847</u>	<u>38,573</u>	<u>38,436</u>	<u>30,596</u>	<u>30,026</u>	

Subsequent settlement of unbilled revenue

Up to the Latest Practicable Date, 98.1% or HK\$30.0 million of our unbilled revenue as at 30 June 2021 had been certified and billed and all of these subsequently certified and billed amount had been settled.

Retention receivables

Depending on the contract terms and negotiation with our customers, our customers may hold up a certain percentage of each payment made to us as retention money. Retention money is normally up to 10% of the value of works done and subject to a maximum of 5% of the total contract sum. Typically, the retention money is released upon the expiry of the defect liability period of 12 months following the completion date of the project.

Our retention receivables increased from approximately HK\$1.2 million as at 31 December 2018 to approximately HK\$3.4 million as at 31 December 2019 and further increased to approximately HK\$11.9 million as at 31 December 2020. Such increase was primarily attributable to the retention receivables from our sizeable projects undertaken during FY2019. The increase in our retention receivables in FY2020 mainly because we have paid performance bonds of HK\$8.0 million to a customer for Project #02 and Project #12 to securing our due performance of such projects. Our retention receivable further increased to HK\$15.7 million as at 30 June 2021 when compared to HK\$11.9 million as at 31 December 2020. Such increase was mainly due to the increase in our retention receivables for Project #28 of approximately \$7.0 million and the performance bond for Project O03 of approximately HK\$2.0 million, while such increase was partially offset by the release of our retention receivable for several projects (such as project #02, #06, etc.) which amounted to approximately HK\$5.5 million, in aggregate. During the Track Record Period and up to the Latest Practicable Date, our Group has not written off any retention receivables.

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Trade and other receivables

Our trade and other receivables as at 31 December 2018, 2019 and 2020 and 30 June 2021 amounted to approximately HK\$8.9 million, approximately HK\$16.7 million, approximately HK\$22.3 million and approximately HK\$17.0 million, respectively. The following table sets forth a breakdown of our trade and other receivables:

	As at 31 December			As at
	2018	2019	2020	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2021</i> <i>HK\$'000</i>
Trade receivables	3,975	10,569	18,713	12,800
Prepayments	4,108	1,988	2,788	3,239
Deposits	849	4,910	810	944
	8,932	17,467	22,311	16,983
Less: non-current portion				
Deposits paid for acquisition of property, plant and equipment	–	(723)	–	–
	8,932	16,744	22,311	16,983

Trade receivables

Our trade receivables increased from approximately HK\$4.0 million as at 31 December 2018 to approximately HK\$10.6 million as at 31 December 2019, further increased to approximately HK\$18.7 million as at 31 December 2020. Such increase was mainly due to our business growth as evidenced by our increase in revenue from approximately HK\$111.2 million for FY2018 to approximately HK\$183.9 million and HK\$276.0 million for FY2019 and FY2020, respectively. Our trade receivables decreased to approximately HK\$12.8 million as at 30 June 2021, which was mainly due to the difference in timing of payments from our customers as at the respective reporting dates.

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Trade receivables and contract assets turnover days

The following table sets forth our trade receivables turnover days and trade receivables and contract assets turnover days during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
Trade receivables turnover days (<i>note 1</i>)	11.0 days	14.4 days	19.4 days	18.4 days
Trade receivables and contract assets turnover days (<i>note 2</i>)	57.2 days	52.5 days	66.9 days	75.0 days

Note:

1. Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including other receivables) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2018 and FY2019, 366 days for FY2020 and 181 days for the six months ended 30 June 2021).
2. Trade receivables and contract assets turnover days is calculated based on the average of the beginning and ending balance of trade receivables and contract assets divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2018 and FY2019, 366 days for FY2020 and 181 days for the six months ended 30 June 2021).

Our trade receivables turnover days were approximately 11.0 days, 14.4 days, 19.4 days and 18.4 days for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively. The trade receivables turnover days during the Track Record Period were in line with our credit period that we granted to customers (i.e., 30 to 60 days from the invoice date)

Our trade receivables and contract assets turnover days amounted to approximately 57.2 days, 52.5 days, 66.9 days and 75.0 days for FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively. The increasing trend in our trade receivables and contract assets turnover days during the Track Record Period was mainly due to the increase in our contract assets, in particular, the increase in our unbilled receivables as a result of our business growth during the Track Record Period.

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Trade receivables ageing analysis and subsequent settlement

The following is an ageing analysis of trade receivables presented based on the invoice dates:

	As at 31 December 2018 HK\$'000	As at 31 December 2019 HK\$'000	As at 31 December 2020 HK\$'000	As at 30 June 2021 HK\$'000
0-30 days	3,856	10,569	12,496	–
31-90 days	–	–	6,217	12,800
91-365 days	119	–	–	–
	<u>3,975</u>	<u>10,569</u>	<u>18,713</u>	<u>12,800</u>

Note: Our Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime ECL provision for all trade receivables. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the ECL rate for trade receivables were 0.26%, nil, nil and 0.05%, respectively. The ECL rate for trade receivable and contract assets as at 31 December 2019 and 2020 were nil mainly because the default rates of the trade receivable and contract assets as at 31 December 2019 and 2020 were insignificant in view of their recoverability.

As at the Latest Practicable Date, all of our trade receivables as at 30 June 2021 had been settled:

	As at 30 June 2021 HK\$'000	Subsequent settlement up to the Latest Practicable Date HK\$'000	%
31-90 days	12,800	12,800	100.0
Total	<u>12,800</u>	<u>12,800</u>	<u>100.0</u>

Prepayments

Our prepayments decreased from approximately HK\$4.1 million as at 31 December 2018 to approximately HK\$2.0 million as at 31 December 2019, which was mainly due to the decrease in prepaid listing expenses in relation to the GEM Listing of approximately HK\$1.9 million during FY2019.

Our prepayments increased to approximately HK\$2.8 million as at 31 December 2020, which was mainly due to the increase in the prepaid Transfer of Listing expenses of approximately HK\$0.9 million for FY2020.

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Our prepayments increased to approximately HK\$3.2 million as at 30 June 2021, which was mainly due to the increase in prepaid expenses for insurance covered in sites operation and machinery rentals expenses of approximately HK\$1.5 million for the six months ended 30 June 2021.

Deposits

Our deposits (current portion) mainly comprised of performance bond and deposits for utility, rental, purchase of materials and other expenses. Our deposits (current portion) increased from approximately HK\$0.8 million as at 31 December 2018 to approximately HK\$4.9 million as at 31 December 2019, and decreased to approximately HK\$0.8 million and HK\$0.9 million as at 31 December 2020 and 30 June 2021. Our deposits increased to approximately HK\$0.9 million as at 30 June 2021. Such fluctuation was mainly due to the pledged deposit paid to an insurance company in relation to a performance bond amounted to approximately HK\$3.1 million during FY2019.

Our deposits (non-current portion) represent the deposits paid for the acquisition of property, plant and equipment, which amounted to nil, approximately HK\$0.7 million, nil and nil as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively.

Performance bond

As at 31 December 2019, certain performance bonds totalling HK\$9,000,000 was issued by an insurance company in favour of our Group's customers as security for the due performance and observance of our Group's obligations under the contracts entered into between our Group and our customers. Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customer would be entitled to the guaranteed compensation for any monetary loss up to the amount of the performance bond.

The performance bonds were secured by (i) corporate guarantees given by our Company; and (ii) a pledged deposit in the sum of HK\$3,100,000 (as included in the current portion of the deposits) placed by A-City Workshop with the insurance company for the year ended 31 December 2019, the deposit of performance bond was released during FY2020.

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Trade and other payables

Our trade and other payables as at 31 December 2018, 2019 and 2020 and 30 June 2021 amounted to approximately HK\$7.6 million, HK\$14.5 million, HK\$31.4 million and HK\$14.1 million, respectively. The following table sets forth a breakdown of our trade and other payables:

	As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	7,226	12,286	28,324	11,413
Accruals and other payables	350	2,250	2,300	2,695
Deferred government grant (<i>Note</i>)	—	—	738	—
	<u>7,576</u>	<u>14,536</u>	<u>31,362</u>	<u>14,108</u>

Note: The deferred government grant mainly represented the grant in relation to Employee Support Scheme for the Construction sector (Casual Employees) under Anti-epidemic Fund provided by the Government.

Our trade payables mainly comprised payables to subcontractors and material suppliers. Our trade payables increased from approximately HK\$7.2 million as at 31 December 2018 to approximately HK\$12.3 million as at 31 December 2019 and further increased to approximately HK\$28.3 million as at 31 December 2020. Such increase was mainly due to our business growth resulting in the increase in our subcontracting expenses and direct material costs during FY2019 and FY2020. Our trade payables decreased to approximately HK\$11.4 million as at 30 June 2021, which was mainly due to the difference in credit term granted by different subcontractors and suppliers and difference in timing of payments to our subcontractors and suppliers as at the respective reporting dates.

Trade payables turnover days

The following table sets out our trade payables turnover days during the Track Record Period:

	FY2018	FY2019	FY2020	Six months ended 30 June 2021
Trade payables turnover days (<i>Note</i>)	25.6 days	23.7 days	33.1 days	28.5 days

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including accruals and other payables) divided by cost of services for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2018 and FY2019, 366 days for FY2020 and 181 days for the six months ended 30 June 2021).

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Our trade payables turnover days was approximately 25.6 days, 23.7 days, 33.1 days and 28.5 days during FY2018, FY2019, FY2020 and the six months ended 30 June 2021. The trade payables turnover days during the Track Record Period were in line with the credit period granted by our suppliers (i.e. 0 to 45 days from the invoice date).

Trade payables ageing analysis and subsequent settlement

The following is an ageing analysis of trade payables based on the invoice dates:

	As at 31 December 2018 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>	As at 31 December 2020 <i>HK\$'000</i>	As at 30 June 2021 <i>HK\$'000</i>
0-30 days	7,192	11,185	28,233	9,662
31-60 days	–	999	–	1,148
61-90 days	7	–	–	–
91-365 days	27	102	91	512
Over 365 days	–	–	–	91
	<u>7,226</u>	<u>12,286</u>	<u>28,324</u>	<u>11,413</u>

Up to the Latest Practicable Date, 97.9% or HK\$11.1 million of our trade payables as at 30 June 2021 had been settled.

INDEBTEDNESS

The following table sets forth our Group's indebtedness as at the dates indicated. As at 31 October 2021, being the most recent practicable date for the purpose of the disclosure of our indebtedness position, save as disclosed below, we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, contingent liabilities, or guarantees on a consolidated basis. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there had not been any material change in our indebtedness or contingent liabilities since 31 October 2021 and up to the date of this listing document. Our Directors confirmed that as at the Latest Practicable Date, we did not have any plan for additional material external debt financing.

FINANCIAL INFORMATION

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December			As at 30	As at 31
	2018	2019	2020	June	October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(Unaudited)
Current liabilities					
Amounts due to directors	4,931	–	–	–	–
Lease liabilities	<u>–</u>	<u>329</u>	<u>260</u>	<u>266</u>	<u>225</u>
	<u>4,931</u>	<u>329</u>	<u>260</u>	<u>266</u>	<u>225</u>
Non-current liabilities					
Lease liabilities	<u>–</u>	<u>–</u>	<u>181</u>	<u>46</u>	<u>–</u>
	<u><u>4,931</u></u>	<u><u>329</u></u>	<u><u>441</u></u>	<u><u>312</u></u>	<u><u>225</u></u>

Lease liabilities

The present value of minimum lease payments within one year amounted to approximately HK\$0.3 million, HK\$0.3 million and HK\$0.3 million as at 31 December 2019 and 2020 and 30 June 2021, respectively, while the present value of minimum lease payments after one year but within two years amounted to nil, approximately HK\$0.2 million and approximately HK\$46,000 as at 31 December 2019 and 2020 and 30 June 2021, respectively.

During the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, the total cash outflows for the leases are approximately HK\$4.3 million, HK\$6.1 million and HK\$6.0 million, respectively.

Amounts due to Director(s)

Details of the amounts due to Directors are summarised in note 17 to the Accountants' Report set out in Appendix I to this listing document. The amounts due to Directors were non-trade in nature, unsecured, non-interest bearing and repayable on demand.

FINANCIAL INFORMATION

LEASE COMMITMENTS

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the total future minimum lease payments payable by our Group under non-cancellable operating leases are as follow:

	As at 31 December			As at 30
	2018	2019	2020	June
	HK\$'000	HK\$'000	HK\$'000	2021
Within one year	503	–	–	–
In the second to fifth years	336	–	–	–
	<u>839</u>	<u>–</u>	<u>–</u>	<u>–</u>

The lease typically run for an initial period of two years. Upon the initial adoption of HKFRS 16 “Lease” on 1 January 2019, our Group measures the rights-of-use assets and lease liabilities by using the incremental borrowing rate at initial application date. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statements of financial position.

POTENTIAL LITIGATIONS

During the Track Record Period, we have been involved in certain litigation and claims, details of which are disclosed in the section headed “Business – Litigations and claims” in this listing document. Our Directors are of the opinion that the litigations and claims are not expected to have a material impact on our financial position. Accordingly, no provision has been made to our Group’s financial statements.

OFF-BALANCE-SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we did not have any off-balance sheet arrangements or commitments.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

	FY2018 or as at 31 December 2018	FY2019 or as at 31 December 2019	FY2020 or as at 31 December 2020	Six months ended 30 June 2021 or as at 30 June 2021
Revenue growth	N/A	65.3%	50.1%	28.1%
Net profit growth	N/A	(57.3)%	473.1%	7.3%
Gross profit margin	19.4%	18.1%	18.7%	18.6%
Net profit margin	14.5%	3.7%	14.3%	10.2%
Return on equity	60.6%	7.8%	31.0%	11.1%
Return on total assets	40.1%	6.4%	24.4%	9.6%
Current ratio	2.9	5.2	4.6	7.8
Quick ratio	2.9	5.2	4.6	7.8
Inventories turnover	N/A	N/A	N/A	N/A
Trade receivables turnover days	11.0 days	14.4 days	19.4 days	18.4 days
Trade payables turnover days	25.6 days	23.7 days	33.1 days	28.5 days
Gearing ratio	18.6%	0.4%	0.3%	0.2%
Net debt to equity ratio	Net cash	Net cash	Net cash	Net cash
Interest coverage	N/A	338.5 times	3,083.9 times	1,970.3 times

Revenue growth

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the fluctuation in our revenue.

Net profit growth

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the fluctuation in our net profit.

Gross profit margin

Please refer to the paragraph headed “Period-to-period comparison of results of operations” in this section for the reasons for the fluctuation in our gross profit margin.

FINANCIAL INFORMATION

Net profit margin

Our net profit margin decreased from approximately 14.5% for FY2018 to approximately 3.7% for FY2019. Such decrease was mainly due to the increase in our non-recurring listing expenses in relation to the GEM Listing from approximately HK\$0.1 million for FY2018 to approximately HK\$16.8 million for FY2019.

Our net profit margin increased to approximately 14.3%, which was driven by the decrease in our non-recurring listing expenses in relation to the GEM Listing from approximately HK\$16.8 million for FY2019 to nil for FY2020.

Our net profit margin decreased from approximately 12.2% for the six months ended 30 June 2020 to approximately 10.2% for the six months ended 30 June 2021, which was driven by the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million for the six months ended 30 June 2021.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year/period divided by the ending total equity as at the respective reporting dates.

Our return on equity decreased from approximately 60.6% during FY2018 to approximately 7.8% for FY2019. Such decrease was mainly due to (i) the decrease in our profit and total comprehensive income of approximately HK\$9.2 million for FY2019. Such decrease was primarily attributable to the increase in our non-recurring listing expenses of approximately HK\$16.6 million in relation to the GEM Listing and the increase in administrative expenses of approximately HK\$2.9 million as a result of increase of our finance and administrative staff and increase of bank charges, while such decrease was partially offset by the increase in our gross profit of approximately HK\$11.8 million as a result of our increase in revenue. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the decrease in our profit and total comprehensive income for FY2019; and (ii) the increase in our total equity of approximately HK\$61.0 million, which was mainly due to the increase of the share capital and share premium of approximately HK\$54.1 million in aggregate as a result of our GEM Listing in December 2019.

Our return on equity increased to approximately 31.0% during FY2020. Such increase was mainly due to the increase in our profit and total comprehensive income for the year of approximately 473.1%, which outweighed the increase in our equity of approximately 45.0% during FY2020.

Our return on equity decreased from approximately 14.4% for the six months ended 30 June 2020 to approximately 11.1% for the six months ended 30 June 2021, which was primarily attributable to (i) the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million; and (ii) the increase in our total equity of approximately HK\$40.4 million, which was due to the increase in our retained earnings as a result of our profitable operation.

FINANCIAL INFORMATION

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year/period divided by the ending total assets as at the financial year-end date.

Our return on total assets decreased from approximately 40.1% for FY2018 to approximately 6.4% for FY2019. Similar to the reason for the decrease in our return on equity, the decrease in our return on assets was mainly due to (i) the decrease in our profit and total comprehensive income of approximately HK\$9.2 million for FY2019. Such decrease was primarily attributable to the increase in our non-recurring listing expenses of approximately HK\$16.6 million in relation to the GEM Listing and the increase in administrative expenses of approximately HK\$2.9 million as a result of increase of our finance and administrative staff and increase of bank charges, while such decrease was partially offset by the increase in our gross profit of approximately HK\$11.8 million as a result of our increase in revenue. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the decrease in our profit and total comprehensive income for FY2019; and (ii) the increase in our total assets of approximately HK\$67.9 million, which was primarily attributable to the increase in our cash and bank balances of approximately HK\$54.3 million as a result of the net proceeds received from our GEM Listing in December 2019.

Our return on assets increased to approximately 24.4% during FY2020. Such increase was mainly due to the increase in our profit and total comprehensive income for the year of approximately 473.1%, which outweighed the increase in our total assets of approximately 49.3% during FY2020.

Our return on total assets decreased from approximately 12.7% for the six months ended 30 June 2020 to approximately 9.6% for the six months ended 30 June 2021, which was primarily attributable to (i) the recognition of Transfer of Listing and related expenses of approximately HK\$5.7 million; and (ii) the increase in our total assets.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio increased from approximately 2.9 times as at 31 December 2018 to approximately 5.2 times as at 31 December 2019, which was primarily attributable to the increase in our cash and bank balances as a result of the net proceeds received from our GEM Listing in 2019.

Our current ratio decreased to approximately 4.6 times as at 31 December 2020, which was mainly due to the increase in our trade and other payables.

Our current ratio increased to approximately 7.8 times as at 30 June 2021, which was mainly due to the decrease in our trade and other payables.

FINANCIAL INFORMATION

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates. Due to our business nature, we did not maintain any inventories during the Track Record Period. As such, our quick ratio is the same as our current ratio.

Inventories turnover days

Due to the nature of our business, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (not including other receivables) divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2018 and FY2019, 366 days for FY2020 and 181 days for the six months ended 30 June 2021).

Please refer to the paragraph headed “Discussion on selected items from the consolidated statements of financial position – Trade and other receivables – Trade receivables and contract assets turnover days” in this section for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables (not including accruals and other payables) divided by cost of services for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2018 and FY2019, 366 days for FY2020 and 181 days for the six months ended 30 June 2021).

Please refer to the paragraph headed “Discussion on selected items from the consolidated statements of financial position – Trade and other payables – Trade payables turnover days” in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (i.e. amounts due to directors and lease liabilities) divided by the total equity as at the respective reporting date.

Our gearing ratio decreased from approximately 18.6% as at 31 December 2018 to approximately 0.4% as at 31 December 2019, which was mainly due to the increase in our total equity as a result of our GEM Listing in 2019.

FINANCIAL INFORMATION

Our gearing ratio remained relatively stable at approximately 0.3% and 0.2% as at 31 December 2020 and as at 30 June 2021, respectively.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. payables incurred not in the ordinary course of business net of cash and cash equivalents) divided by total equity as at the respective reporting date.

We recorded net cash positions as at 31 December 2018, 2019 and 2020 and 30 June 2021.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax expenses divided by finance costs of the respective reporting years/period.

Our interest coverage increased from nil as at 31 December 2018 to approximately 338.5 times as at 31 December 2019. Since our Group recognised the lease liabilities during FY2019 under the initial application of HKFRS 16, we recorded finance charges on lease liabilities of approximately HK\$30,000. In addition, our Group incurred interest expense of approximately HK\$4,000 on bank overdrafts during FY2019.

Our interest coverage increased to approximately 3,083.9 times as at 31 December 2020, which was mainly due to the increase in our profit before interest and tax as discussed above. Our interest coverage decreased to approximately 1,970.3 times as at 30 June 2021. Such decrease was primarily attributable to the increase in Transfer of Listing and related expenses, which led to a lower profit before interest and tax.

RELATED PARTY TRANSACTIONS

We did not have any significant related party transactions during the Track Record Period save as the amounts due to directors and the key management personnel remuneration. For further details, please refer to note 24 to the Accountants' Report in Appendix I in this listing document.

FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to "Business – Risk management and internal control systems" and note 26 of the Accountants' Report set out in Appendix I to this listing document.

Our Group's capital management objectives are to ensure our Group's ability to continue as a going concern and to maintain capital structure in order to minimise the costs of capital, support its business and maximise shareholders' value.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to “Unaudited Pro Forma Financial Information” in Appendix II to this listing document for further details.

LISTING EXPENSES/TRANSFER OF LISTING AND RELATED EXPENSES

Our Group was listed on GEM of the Stock Exchange on 13 December 2019. We incurred listing expenses of approximately HK\$0.1 million, HK\$16.8 million, nil and nil for the GEM Listing during FY2018, FY2019, FY2020 and the six months ended 30 June 2021, respectively.

Our Directors estimate that the total amount of expenses in relation to the Transfer of Listing is approximately HK\$13.3 million, which is expected to be charged to the profit or loss and comprising (i) professional parties expenses of approximately HK\$10.0 million paid and payable to the Sponsor, the financial adviser to our Company, the reporting accountants and auditors, the legal advisers, the industry consultant and the internal control adviser; and (ii) non-professional parties expenses of approximately HK\$3.3 million. Out of the amount of approximately HK\$13.3 million, approximately HK\$1.4 million and HK\$5.7 million was incurred during FY2020 and the six months ended 30 June 2021, while approximately HK\$6.2 million is expected to be incurred for the six months ended 31 December 2021. Expenses in relation to the Transfer of Listing are non-recurring in nature. Our Group’s financial performance and results of operations for FY2021 will be affected by the expenses in relation to the Transfer of Listing.

DIVIDEND

For each of FY2018, FY2019, FY2020 and the six months ended 30 June 2021, we declared dividends payables of approximately HK\$10.0 million, nil, nil and nil, respectively to our then shareholders. The dividend was paid by setting off against the amounts due from Mr. Sieh and Mr. Ho during FY2018. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors including our operation and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payment ratio.

FINANCIAL INSTRUMENT

Our Group have not entered into any financial instruments for hedging purposes during the Track Record Period and as at the Latest Practicable Date.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 30 January 2019 and is an investment holding company. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our Company had no reserves available for distribution to our Shareholders.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE MAIN BOARD LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which, had been required to comply with Rules 13.13 to 13.19 of the Main Board Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Main Board Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the Transfer of Listing, up to the date of this listing document, there has been no material adverse change in our financial or trading position or prospects since 30 June 2021, and there have been no events since 30 June 2021 which would materially affect the information shown in our consolidated financial information included in the Accountants' Report set forth in Appendix I to this listing document.

The following is the text of a report received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purposes of incorporation in this Listing Document.



23 December 2021

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MAXICITY HOLDINGS LIMITED AND KINGSWAY CAPITAL LIMITED

Introduction

We report on the historical financial information of Maxicity Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-5 to I-52, which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 and 30 June 2021, and the statements of financial position of the Company as at 31 December 2019 and 2020 and 30 June 2021, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-5 to I-52 forms an integral part of this report, which has been prepared for inclusion in the listing document of the Company dated 23 December 2021 (the “Listing Document”) in connection with the proposed transfer of the listing of the Company’s shares from GEM to the Main Board (the “Transfer of Listing”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investments Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s consolidated financial position as at 31 December 2018, 2019 and 2020 and 30 June 2021, the Company’s financial position as at 31 December 2019 and 2020 and 30 June 2021, and of the Group’s consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We

conducted our review in accordance with Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the consolidated financial statements as defined on page I-5 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which contains information about the dividends declared by the Company's subsidiary and states that no dividends have been paid by the Company in respect of the Track Record Period.

Grant Thornton Hong Kong Limited

Certified Public Accountants

11th Floor

Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

Chan Tze Kit

Practising Certificate Number: P05707

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information of the Group for the Track Record Period in this report was prepared based on the Group's consolidated financial statements. The consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December			Six months ended	
		2018	2019	2020	30 June	2021
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note (i))			(Unaudited)	
Revenue	4	111,245	183,903	276,006	120,844	154,791
Cost of services		(89,660)	(150,546)	(224,410)	(98,228)	(125,996)
Gross profit		21,585	33,357	51,596	22,616	28,795
Other income, gains and losses, net	5	(3)	224	4,784	340	1,493
Administrative expenses		(2,374)	(5,302)	(8,672)	(5,174)	(4,928)
Listing expenses		(139)	(16,769)	-	-	-
Transfer of Listing and related expenses		-	-	(1,449)	-	(5,657)
Finance costs	6	-	(34)	(15)	(6)	(10)
Profit before income tax	7	19,069	11,476	46,244	17,776	19,693
Income tax expense	8	(2,975)	(4,610)	(6,894)	(3,070)	(3,908)
Profit and total comprehensive income for the year/period		<u>16,094</u>	<u>6,866</u>	<u>39,350</u>	<u>14,706</u>	<u>15,785</u>
		HK cents	HK cents	HK cents	HK cents	HK cents
					(Unaudited)	
Earnings per share attributable to equity holders of the Company						
Basic and diluted	10	<u>5.36</u>	<u>2.25</u>	<u>9.84</u>	<u>3.68</u>	<u>3.95</u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. Please refer to note 2.2 for further details.

Consolidated statements of financial position

		At 31 December			At 30 June
	Notes	2018 HK\$'000 (note (i))	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	1,641	2,692	4,948	4,262
Deposits paid for acquisition of property, plant and equipment	13	–	723	–	–
		<u>1,641</u>	<u>3,415</u>	<u>4,948</u>	<u>4,262</u>
Current assets					
Contract assets	14	17,133	21,198	50,494	46,252
Trade and other receivables	13	8,932	16,744	22,311	16,983
Cash and bank balances	15	12,434	66,701	83,531	96,097
		<u>38,499</u>	<u>104,643</u>	<u>156,336</u>	<u>159,332</u>
Current liabilities					
Trade and other payables	16	7,576	14,536	31,362	14,108
Amounts due to directors	17	4,931	–	–	–
Lease liabilities	18	–	329	260	266
Current tax liabilities		883	5,424	2,160	6,135
		<u>13,390</u>	<u>20,289</u>	<u>33,782</u>	<u>20,509</u>
Net current assets		<u>25,109</u>	<u>84,354</u>	<u>122,554</u>	<u>138,823</u>
Total assets less current liabilities		<u>26,750</u>	<u>87,769</u>	<u>127,502</u>	<u>143,085</u>
Non-current liabilities					
Lease liabilities	18	–	–	181	46
Deferred tax liabilities	19	188	257	459	392
		<u>188</u>	<u>257</u>	<u>640</u>	<u>438</u>
Net assets		<u>26,562</u>	<u>87,512</u>	<u>126,862</u>	<u>142,647</u>
EQUITY					
Share capital	20	1	4,000	4,000	4,000
Reserves	21	26,561	83,512	122,862	138,647
Equity attributable to equity holders of the Company		<u>26,562</u>	<u>87,512</u>	<u>126,862</u>	<u>142,647</u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. Please refer to note 2.2 for further details.

Statements of financial position of the Company

		At 31 December		At 30 June
		2019	2020	2021
	Notes	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES				
Non-current asset				
Investment in a subsidiary		26,780	26,780	26,780
Current assets				
Prepayments	13	381	1,064	–
Amounts due from subsidiaries (note)		30,103	32,868	29,478
Cash and bank balances		7,658	2,388	976
		38,142	36,320	30,454
Current liabilities				
Accruals	16	1,769	1,164	1,782
Current tax liabilities		–	38	38
		1,769	1,202	1,820
Net current assets		36,373	35,118	28,634
Net assets/Total asset less current liabilities		63,153	61,898	55,414
EQUITY				
Share capital	20	4,000	4,000	4,000
Reserves	21	59,153	57,898	51,414
Total equity		63,153	61,898	55,414

Note: The amount due is non-trade nature, unsecured, interest-free and has no fixed repayment term. The Group considers the expected credit loss rate to be 0.01% based on historical settlement records, forward-looking information and past experience. The Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method.

Consolidated statements of changes in equity

	Share capital HK\$'000 (note 20)	Share premium HK\$'000 (note 21(a))	Capital reserve HK\$'000 (note 21(a))	Retained earnings HK\$'000 (note 21(a))	Total HK\$'000
Balance at 1 January 2018	1	–	–	20,466	20,467
Profit and total comprehensive income for the year	–	–	–	16,094	16,094
<i>Transaction with owners:</i>					
Final dividends declared and approved (note 9)	–	–	–	(9,999)	(9,999)
Balance at 31 December 2018 and 1 January 2019 (note)	<u>1</u>	<u>–</u>	<u>–</u>	<u>26,561</u>	<u>26,562</u>
Profit and total comprehensive income for the year	–	–	–	6,866	6,866
<i>Transaction with owners:</i>					
Issuance of share upon incorporation (note 20(i))	–*	–	–	–	–*
Effect of group reorganisation (the “Reorganisation”) (note 20(ii))	(1)	–	1	–	–
Issue of shares upon public offering and placing (note 20(iv))	1,000	53,084	–	–	54,084
Capitalisation issue (note 20(v))	<u>3,000</u>	<u>(3,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total transactions with owners	<u>3,999</u>	<u>50,084</u>	<u>1</u>	<u>–</u>	<u>54,084</u>
Balance at 31 December 2019 and 1 January 2020	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>33,427</u>	<u>87,512</u>
Profit and total comprehensive income for the year	–	–	–	39,350	39,350
Balance at 31 December 2020 and 1 January 2021	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>72,777</u>	<u>126,862</u>
Profit and total comprehensive income for the period	–	–	–	15,785	15,785
Balance at 30 June 2021	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>88,562</u>	<u>142,647</u>
Balance at 1 January 2020	4,000	50,084	1	33,427	87,512
Profit and total comprehensive income for the period (Unaudited)	–	–	–	14,706	14,706
Balance at 30 June 2020 (Unaudited)	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>48,133</u>	<u>102,218</u>

* The balance represented an amount less than HK\$1,000.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. Please refer to note 2.2 for further details.

Consolidated statements of cash flows

Notes	Year ended 31 December			Six months ended 30 June	
	2018 HK\$'000 (note (i))	2019 HK\$'000	2020 HK\$'000	2020 HK\$'000 (Unaudited)	2021 HK\$'000
Cash flows from operating activities					
Profit before income tax	19,069	11,476	46,244	17,776	19,693
Adjustments for:					
Depreciation	614	1,137	1,658	778	921
Loss/(gain) on disposal of property, plant and equipment	4	(182)	5	–	(114)
Written-off of property, plant and equipment	–	–	57	–	–
Interest expense on bank overdrafts	–	4	–	–	–
Finance charges on lease liabilities	–	30	15	6	10
Interest income	–	(41)	(450)	(260)	(50)
Operating profit before working capital changes	19,687	12,424	47,529	18,300	20,460
(Increase)/decrease in contract assets	(6,129)	(4,065)	(29,576)	(10,905)	4,242
(Increase)/decrease in trade and other receivables	(2,197)	(9,854)	(5,534)	(3,352)	5,328
Increase/(decrease) in trade and other payables	2,019	6,960	16,886	(5,542)	(17,254)
Cash generated from/ (used in) operations	13,380	5,465	29,305	(1,499)	12,776
Income tax paid	(6,164)	–	(9,956)	(4,621)	–
<i>Net cash generated from/(used in) operating activities</i>	<u>7,216</u>	<u>5,465</u>	<u>19,349</u>	<u>(6,120)</u>	<u>12,776</u>
Cash flows from investing activities					
Interest received	–	41	450	260	50
Purchase of property, plant and equipment	(306)	(2,073)	(2,570)	(1,413)	(329)

	<i>Notes</i>	Year ended 31 December			Six months ended	
		2018	2019	2020	30 June	
		HK\$'000 (note (i))	HK\$'000	HK\$'000	2020 HK\$'000 (Unaudited)	2021 HK\$'000
Proceeds from disposal of property, plant and equipment		50	189	5	–	208
Deposit paid for purchase of property, plant and equipment		–	–	–	(1,070)	–
Advances to directors		(3,706)	–	–	–	–
<i>Net cash used in investing activities</i>		<u>(3,962)</u>	<u>(1,843)</u>	<u>(2,115)</u>	<u>(2,223)</u>	<u>(71)</u>
Cash flows from financing activities						
Interest paid	6	–	(34)	(15)	(6)	(10)
Proceeds from issuance of share capital		–	60,000	–	–	–
Share issuance expenses		(2,000)	(3,916)	–	–	–
Payment of lease liabilities		–	(474)	(389)	(246)	(129)
Repayment to the directors		–	(4,931)	–	–	–
<i>Net cash (used in)/ generated from financing activities</i>		<u>(2,000)</u>	<u>50,645</u>	<u>(404)</u>	<u>(252)</u>	<u>(139)</u>
Net increase/(decrease) in cash and cash equivalents		1,254	54,267	16,830	(8,595)	12,566
Cash and cash equivalents at the beginning of year/period		<u>11,180</u>	<u>12,434</u>	<u>66,701</u>	<u>66,701</u>	<u>83,531</u>
Cash and cash equivalents at the end of year/period	15	<u><u>12,434</u></u>	<u><u>66,701</u></u>	<u><u>83,531</u></u>	<u><u>58,106</u></u>	<u><u>96,097</u></u>

Note:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information before 1 January 2019 is not restated. Please refer to note 2.2 for further details.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

Maxicity Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act of the Cayman Islands on 30 January 2019. The shares of the Company are listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 December 2019. The addresses of the Company's registered office and principal place of business are set out in the section headed "Corporate Information" of the Listing Document.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in undertaking slope works in Hong Kong.

The Company's immediate and ultimate holding company is Good Hill Investment Limited ("Good Hill"), a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling shareholders of the Group are Mr. Sieh Shing Kee ("Mr. Sieh") and Mr. Ho Ka Ki ("Mr. Ho") (collectively, the "Controlling Shareholders").

At the end of each Track Record Period and as at the date of this report, the Company had direct or indirect interest in its subsidiaries, all of which are private limited liability companies, and the particulars of which are set out below:

Name	Place of incorporation	Date of incorporation	Particulars of issued and paid up capital				Effective interest held by the Group as at				Date of this report	Principal activities
			as at 31 December		as at 30 June		31 December		30 June			
			2018	2019	2020	2021	2018	2019	2020	2021		
Directly held by the Company												
Kanic International Limited ("Kanic International") (note (a))	BVI	5 March 2019	US\$11	US\$11	US\$11	US\$11	N/A	100%	100%	100%	100%	Investment holding
Indirectly held by the Company												
A-City Workshop Limited ("A-City") (note (b))	Hong Kong	31 August 2012	HK\$1,000	HK\$1,000	HK\$8,600,000	HK\$13,900,000	100%	100%	100%	100%	100%	Undertaking slope works in Hong Kong

Notes:

- No statutory financial statements have been prepared for Kanic International as it is not subject to statutory audit requirements under relevant rules and regulations in the jurisdiction of incorporation.
- The statutory financial statements for the years ended 31 December 2018, 2019 and 2020 were audited by Nortex (HK) CPA Limited.

1.2 Reorganisation and basis of presentation

In preparation for listing of the Company's shares on GEM of the Stock Exchange (the "Listing"), the entities in the Group underwent the Reorganisation which involves the Company and other investment holding companies between A-City and the then shareholders. Prior to the Reorganisation, the Group's operating subsidiary, A-City, was held as to 50% by Mr. Sieh and Mr. Ho respectively.

The principle steps of the Reorganisation are as follows:

On 16 January 2019, Good Hill allotted and issued one share, credited as fully paid at par, to each of Mr. Ho and Mr. Sieh, for a consideration of US\$1 each as initial subscribers.

On 30 January 2019, the Company issued and allotted one share, credited as fully paid at par, to the initial subscriber, which was then transferred to Good Hill on the same date for a consideration of HK\$0.01 at par and settled by Good Hill in cash on the same day.

On 5 March 2019, Kanic International allotted and issued one share, credited as fully paid at par, to the Company for a consideration of US\$1 as initial subscriber.

On 15 March 2019, Mr. Ho and Mr. Sieh transferred 500 shares of A-City each, in aggregate representing the entire issued share capital of A-City, to Kanic International for a consideration of HK\$26,780,000, which was determined based on the net asset value of A-City as at 31 December 2018 and settled by (a) Kanic International by issuing and allotting 10 shares, credited as fully paid at a premium, to the Company; (b) the Company by issuing and allotting 2,000 shares, credited as fully paid at a premium, to Good Hill; and (c) Good Hill by issuing and allotting one share, credited as fully paid at a premium, to each of Mr. Ho and Mr. Sieh.

Upon the completion of the above steps, the Reorganisation was completed by interspersing the investment holding companies between Mr. Sieh and Mr. Ho and A-City in connection with the Listing, the Company became the holding company of the companies now comprising the Group on 15 March 2019. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the years ended 31 December 2019 and 2018 or since their respective dates of incorporation, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below.

The Historical Financial Information has been prepared under the historical cost basis. The Historical Financial Information is presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (HK\$'000), except where otherwise indicated.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3 below.

For the purpose of preparing and presenting the Historical Financial Information, all new standards, amendments to standards and interpretations, have been consistently applied by the Group throughout the Track Record Period except that the Group adopted HKFRS 16 on 1 January 2019, amendment to HKFRS 3 "Definition of Business", amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform" and amendments to HKAS 1 and HKAS 8 "Definition of Material" on 1 January 2020, and adopted amendments to

HKFRS 16 “Covid-19-Related Rent Concessions” and amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform - Phase 2” on 1 January 2021. The adoption of the new and amended HKFRSs had no material impact on how the results and financial position throughout the Track Record Period except for the adoption of HKFRS 16 “Leases” which is set out in note 2.2. The accounting policy for leases under HKFRS 16 are set out in notes 2.2 and 2.12 below.

2.2 Impact on adoption of HKFRS 16

The Group has applied for all of the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group’s operations and first effective for the Group’s Historical Financial Information for the period beginning from 1 January 2019 in accordance with their respective first effective date. Other than as noted below, the adoption of these new and amended HKFRSs has no material impact on the Historical Financial Information.

HKFRS 16

HKFRS 16 and the related consequential amendments to other HKFRSs which resulted in changes in accounting policies and adjustments to the amounts recognised in the Historical Financial Information. HKFRS 16 replaces HKAS 17 “Leases” (“HKAS 17”) along with three interpretations (HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” (“HK(IFRIC) – Int 4”), HK(SIC) – Int 15 “Operating Leases-Incentives” and HK(SIC) – Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”).

In accordance with the transitional provisions in HKFRS 16, the Group has elected to apply HKFRS 16 using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings as at 1 January 2019. Prior periods have not been restated.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated statements of profit or loss and other comprehensive income over the lease period on a straight-line basis.

Upon adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

For contracts in place at the date of initial application (i.e. 1 January 2019), the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC) – Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC) – Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

In summary, the following adjustment was made to the amounts recognised in the consolidated statements of financial position at the date of initial application (1 January 2019):

	Carrying amount on 31 December 2018 under HKAS 17 HK\$'000	Adjustment HK\$'000	Carrying amount on 1 January 2019 under HKFRS 16 HK\$'000
Non-current assets			
Right-of-use assets, presented in property, plant and equipment	–	845	845
Current assets			
Trade and other receivables	8,932	(42)	8,890
Current liabilities			
Leases liabilities	–	474	474
Non-current liabilities			
Leases liabilities	–	329	329

When measuring lease liabilities for leases that were classified as operating leases under HKAS 17, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 5.07%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	<i>HK\$'000</i>
Operating lease commitment as at 31 December 2018 (note 22)	839
Less: discounting using incremental borrowing rate as at 1 January 2019	<u>(36)</u>
Lease liabilities recognised under HKFRS 16 as at 1 January 2019	<u>803</u>

2.3 Issued but not yet effective HKFRSs

The Group has not early applied the following new and amended standards, amendments and interpretations (“new and amended HKFRSs”) that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and related amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁵
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018-2020 ¹
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination ⁴

- ¹ Effective for annual periods beginning on or after 1 January 2022
- ² Effective for annual periods beginning on or after 1 January 2023
- ³ Effective date not yet determined
- ⁴ Effective for business combinations/common control combination for which the acquisition date/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022
- ⁵ Effective for annual periods beginning on or after 1 April 2021

The directors anticipate that all of the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the new and amended HKFRSs. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Historical Financial Information.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

The amendments to HKAS 1 require entities to disclose material accounting policy information instead of significant accounting policies in its financial statements. The amendments also provide some guidance on how material policy information are being identified and provide some examples of when accounting policy information is likely to be material.

In March 2021, HKICPA issued HKFRS Practice Statement 2 "Making Materiality Judgements" to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. HKFRS Practice Statement 2 was subsequently revised to provide guidance and examples on how to apply the concept of materiality to accounting policy disclosures.

The amendments to HKAS 1 are effective for annual reporting period beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. Except for the disclosures of accounting policies in note 2 may need to be revised to cope with the above changes, the directors expect that the amendments have no other material impact on the consolidated financial statements.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments clarify that the initial recognition exemption of deferred tax in HKAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets and contracts that give rise to the recognition of decommissioning obligations and corresponding amounts recognised as assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in HKAS 12.

The amendments are effective for annual reporting period beginning on or after 1 January 2023. Earlier application is permitted. The directors expect that the amendments have no other material impact on the consolidated financial statements.

2.4 Basis of consolidation

The Historical Financial Information incorporates the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Historical Financial Information. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

In the Company's statements of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.5 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

2.6 Property, plant and equipment

Property, plant and equipment (including right-of-use assets) are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset (other than cost of right-of-use assets described in note 2.12). Depreciation commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less their residual values (if any) over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of lease or 20%, whichever is shorter
Furniture and fixtures	20%
Plant and machinery	20%
Motor vehicles	33.33%

Upon the application of HKFRS 16, accounting policy for depreciation of right-of-use assets is set out in note 2.12.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.7 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. Financial liabilities are derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”), all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss (“FVTPL”), plus transaction costs that are directly attributable to the acquisition of the financial asset.

All financial assets are measured at amortised costs.

The classification is determined by both:

- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Expected credit losses (“ECL”) of trade receivables, contract assets and other financial assets measured at amortised cost is presented as a separate item in profit or loss.

Subsequent measurement of financial assets

Debt investments

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in “Other income, gains and losses, net” in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group’s trade and other receivables and cash and bank balances fall into this category of financial instruments.

Financial liabilities

Classification and measurement of financial liabilities

The Group’s financial liabilities include trade and other payables, amounts due to directors and lease liabilities.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs.

The accounting policies for lease liabilities are set out in note 2.12.

2.8 Impairment of financial assets and contract assets

HKFRS 9's "Financial Instruments" ("HKFRS 9") impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has reviewed each individual trade receivables and contract assets based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

In addition, to measure the ECL, trade receivables and contract assets have also been assessed collectively and grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs (i) when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group) or (ii) the financial asset is 90 days past due.

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 26.3.

2.9 Impairment of non-financial assets

The Group's property, plant and equipment (including right-of-use assets) and the Company's investment in a subsidiary are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.15) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.8 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.7).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.15). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.7).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.12 Leases

Definition of a lease and the Group as a lessee

Policies applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets in a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedient instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statements of financial position, right-of-use assets have been included in "Property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

The payments of refundable rental deposits are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Policies applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental is charged to profit or loss in the accounting period in which they are incurred.

2.13 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction are deducted from share premium.

2.15 Revenue recognition

Revenue arises mainly from the contracts for the undertaking slope works services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Revenue from undertaking slope works contracts

The Group undertakes slope works under contracts with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates and enhances an asset that the customer controls as the Group performs. Revenue from slope works is therefore recognised over time using output method, i.e. based on surveys of undertaking slope works completed by the Group to date as certified by the customers or their appointed architects, surveyors or other representatives. In cases where the payment certificates do not take place as at the Group's reporting period-end dates or do not exactly cover periods up to the reporting period-end dates, the revenue for the period from the last payment certificates up to the reporting period-end dates is estimated based on the actual amounts of works performed by the Group during such period as indicated by the internal progress reports, the payment applications prepared by the Group and the next payment certificates, if any, issued by the Group's customers or other representatives appointed by the Group's customers that takes place subsequent to the reporting period-end dates. The management of the Group considers that output method would faithfully depict the Group's performance towards complete satisfaction of these performance obligation under HKFRS 15.

The Group generally provides for warranties for repairs to any construction defects and does not provide extended warranties in its construction contract with customers. As such, all existing warranties are considered as assurance-type warranties under HKFRS 15, which are accounted for under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

2.16 Government Grant

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the consolidated statements of financial position and are recognised in profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other income, gains and losses, net" in the consolidated statements of profit or loss and other comprehensive income.

2.17 Employee benefits***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the Track Record Period. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

During the Track Record Period, there were no contributions forfeited by the Group on behalf of its employees who left the plan prior to vesting fully in such contribution, nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2018, 2019 and 2020 and 30 June 2021, no forfeited contributions were available for utilisation by the Group to reduce the existing level of contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable profit, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable profit of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.19 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

2.20 Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Construction contracts

As explained in note 2.15, revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts, with reference to the progress certificates issued by the customers or their appointed architects, surveyors or other representatives. The Group reviews and revises the estimates of contract revenue and contract costs, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted construction costs by comparing the budgeted amounts to the actual costs incurred. When the outcome of a construction contract cannot be estimated reliably (uncertified work or unagreed income), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Significant judgement is required in estimating the contract revenue and contract costs which may have an impact on progress of the construction contracts and the corresponding profit taken.

Management exercised their judgements and estimates based on contract costs and revenues with reference to the latest available information, which includes detailed contract sum and works performed. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the timing and recognition of payments and the age and recoverability of any uncertified work. The impact of the changes in accounting estimates is then reflected in the ongoing results. In addition, actual income in terms of total revenue or costs maybe higher or lower than estimation at the end of the reporting period, which would affect the contract revenue and gross profit recognised in future years as an adjustment to the amounts recorded to date. Details of contract revenue and contract assets are set out in notes 4 and 14, respectively.

Estimation of impairment of trade and other receivables (excluding prepayments and deposits paid for acquisition of property, plant and equipment) and contract assets

The Group makes allowances on items subjects to ECL (including trade and other receivables (excluding prepayments and deposits paid for acquisition of property, plant and equipment) and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of Track Record Period as set out in note 2.8. When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and other receivables (excluding prepayments and deposits paid for acquisition of property, plant and equipment) and contract assets and credit losses in the periods in which such estimate has been changed. No ECL in respect of trade and other receivables (excluding prepayments and deposits paid for acquisition of property, plant and equipment) and contract assets was recognised during the Track Record Period. Carrying amounts of trade and other receivables and contract assets are set out in notes 13 and 14, respectively.

4. REVENUE AND SEGMENT INFORMATION

4.1 Revenue

The Group's principal activities are disclosed in note 1.1 to the Historical Financial Information. Revenue represents income arising on the provision of slope works to external customers. The Group's revenue is recognised over time.

	Year ended 31 December			Six months ended	
	2018	2019	2020	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Provision of slope works					
– Public sector projects	106,045	149,812	239,915	111,225	139,178
– Private sector projects	5,200	34,091	36,091	9,619	15,613
	<u>111,245</u>	<u>183,903</u>	<u>276,006</u>	<u>120,844</u>	<u>154,791</u>

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2018, 2019 and 2020 and 30 June 2021.

	At 31 December			At 30 June	
	2018	2019	2020	2021	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Remaining performance obligations expected to be satisfied during the year/period ending					
31 December 2019	122,825	–	–	–	–
31 December 2020	32,676	149,772	–	–	–
31 December 2021	–	9,548	136,197	137,372	–
31 December 2022	–	–	18,125	142,354	–
31 December 2023	–	–	18,125	78,109	–
31 December 2024	–	–	18,125	48,148	–
31 December 2025	–	–	–	2,924	–
	<u>155,501</u>	<u>159,320</u>	<u>190,572</u>	<u>408,907</u>	

4.2 Segment information

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of undertaking slope works as a single operating segment and review the overall results of the Group as a whole to make decision about resources allocation and performance assessment. Accordingly, no segment analysis information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is Hong Kong.

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	Year ended 31 December			Six months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				(Unaudited)	
Customer A	34,578	N/A*	N/A*	N/A*	N/A*
Customer B	33,770	63,842	N/A*	13,939	N/A*
Customer C	28,556	49,946	59,339	32,822	42,945
Customer E	N/A*	45,007	95,703	30,395	58,017
Customer F	N/A*	N/A*	78,018	40,922	37,461

* The corresponding revenue does not contribute over 10% of total revenue of the Group.

5. OTHER INCOME, GAINS AND LOSSES, NET

	Year ended 31 December			Six months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				(Unaudited)	
Bank interest income	–	41	450	260	50
(Loss)/gain on disposal of property, plant and equipment	(4)	182	(5)	–	114
Government grant (<i>note</i>)	–	–	4,332	79	1,321
Sundry income	1	1	7	1	8
	(3)	224	4,784	340	1,493

Note: During the year ended 31 December 2020, the Group recognised the subsidies of approximately HK\$4,332,000 in relation to Construction Industry Anti-epidemic Fund launched by the Construction Industry Council, a subsidy for registered owners of goods vehicles provided by Transport Department and Employment Support Scheme for Regular Employees and Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government of Hong Kong Special Administrative Region as part of the relief measures on COVID-19 pandemic.

During the six months ended 30 June 2021, the Group recognised the subsidies of approximately HK\$1,321,000 in relation to Construction Innovation and Technology Fund launched by the Construction Industry Council and Employment Support Scheme for Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government of Hong Kong Special Administrative Region as part of the relief measures on COVID-19 pandemic.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2020 HK\$'000 (Unaudited)	2021 HK\$'000
Interest expense on bank overdrafts	–	4	–	–	–
Finance charges on lease liabilities	–	30	15	6	10
	<u>–</u>	<u>34</u>	<u>15</u>	<u>6</u>	<u>10</u>

7. PROFIT BEFORE INCOME TAX

	Year ended 31 December			Six months ended 30 June	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2020 HK\$'000 (Unaudited)	2021 HK\$'000
Profit before income tax is arrived at after charging:					
(a) Staff costs (including directors' emoluments (note 11(a)) (note)					
– Salaries, wages and other benefits	32,767	48,442	74,910	30,533	36,860
– Contributions to defined contribution retirement plans	<u>1,486</u>	<u>1,933</u>	<u>2,978</u>	<u>1,140</u>	<u>1,502</u>
	<u>34,253</u>	<u>50,375</u>	<u>77,888</u>	<u>31,673</u>	<u>38,362</u>

Note: Presenting in consolidated statements of profit or loss and other comprehensive income as:

Cost of services	32,631	47,819	73,332	29,239	36,180
Administrative expenses	<u>1,622</u>	<u>2,556</u>	<u>4,556</u>	<u>2,434</u>	<u>2,182</u>
	<u>34,253</u>	<u>50,375</u>	<u>77,888</u>	<u>31,673</u>	<u>38,362</u>

	Year ended 31 December			Six months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
(b) Other items					
Depreciation, included in:					
– Cost of services					
– owned assets	566	579	1,184	498	780
– Administrative expenses					
– owned assets	48	51	52	27	16
– right-of-use assets	–	507	422	253	125
	<u>614</u>	<u>1,137</u>	<u>1,658</u>	<u>778</u>	<u>921</u>
Auditor's remuneration	–	600	700	300	375
Subcontracting charges (included in cost of services)	24,820	43,248	61,163	28,887	36,546
Operating lease charges/Short term lease with lease term less than 12 months in respect of machinery (included in cost of services)	2,118	3,782	5,722	3,223	5,827
Operating lease charges in respect of leased premises	212	–	–	–	–
Written-off of property, plant and equipment	–	–	57	–	–
Listing expenses	139	16,769	–	–	–
Transfer of Listing and related expenses	–	–	1,449	–	5,657
	<u>–</u>	<u>–</u>	<u>1,449</u>	<u>–</u>	<u>5,657</u>

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
				HK\$'000	HK\$'000
				(Unaudited)	
Provision for Hong Kong Profits Tax					
– Current tax	3,126	4,541	6,710	2,900	3,975
– Over provision in respect of prior years	–	–	(18)	–	–
– Statutory tax concession	(30)	–	–	–	–
	<u>3,096</u>	<u>4,541</u>	<u>6,692</u>	<u>2,900</u>	<u>3,975</u>
Deferred tax (note 19)	(121)	69	202	170	(67)
	<u>2,975</u>	<u>4,610</u>	<u>6,894</u>	<u>3,070</u>	<u>3,908</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the 'Bill') which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%.

For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, Hong Kong Profits Tax of A-City, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime. Profit tax of other group entities continue to be taxed at the flat rate of 16.5%.

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2020 HK\$'000 (Unaudited)	2021 HK\$'000
Profit before income tax	<u>19,069</u>	<u>11,476</u>	<u>46,244</u>	<u>17,776</u>	<u>19,693</u>
Tax at Hong Kong Profits					
Tax rate of 16.5%	3,147	1,894	7,630	2,933	3,249
Tax effect of non-taxable revenue	–	–	(789)	(43)	(230)
Tax effect of non-deductible expenses	23	2,881	236	133	987
Tax effect of tax losses not recognised	–	–	–	212	67
Effect of two-tiered profits tax rates regime	(165)	(165)	(165)	(165)	(165)
Over provision in respect of prior years	–	–	(18)	–	–
Statutory tax concession	<u>(30)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Income tax expense	<u>2,975</u>	<u>4,610</u>	<u>6,894</u>	<u>3,070</u>	<u>3,908</u>

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets in respect of the tax losses as the directors of the Company consider that it is uncertain as to the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

As at 30 June 2021, the Group had unused tax losses of approximately HK\$406,000, which are available for offset against future profits that may be carried forward indefinitely and are subject to approval from the Hong Kong Inland Revenue Department.

9. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note (i))	(note (ii))	(note (ii))	(Unaudited) (note (ii))	(note (ii))
Dividends declared by A-City prior to the Reorganisation	9,999	–	–	–	–

Note:

- (i) Prior to the Reorganisation, A-City has declared and appropriated 2017 final dividends to its then shareholders amounted to HK\$9,999,000 during the year ended 31 December 2018. The rate and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report for the year ended 31 December 2018.
- (ii) The directors of the Company do not recommend the payment of any dividend in respect of the period from 30 January 2019 (date of incorporation of the Company) to 30 June 2021.

10. EARNINGS PER SHARE

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
				(Unaudited)	
Earnings for the purpose of calculating basic earnings per share (profit for the year/period) (HK\$'000)	16,094	6,866	39,350	14,706	15,785
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	300,000	305,479	400,000	400,000	400,000

For the year ended 31 December 2018, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share are retrospectively adjusted based on (i) 1 and 2,000 ordinary shares in issue upon incorporation and for the purpose of the Reorganisation respectively; (ii) 299,997,999 new ordinary shares issued pursuant to the capitalisation issue as detailed in note 20(v) ("Capitalisation Issue"), as if all these shares had been in issue throughout the year ended 31 December 2018, as described in the section headed "History, Development and Reorganisation" in the Listing Document.

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share includes (i) 1 and 2,000 ordinary shares in issue upon incorporation and during the year ended 31 December 2019 respectively; (ii) 299,997,999 new ordinary shares issued pursuant to the Capitalisation Issue, as if all these shares had been in issue throughout the year ended 31 December 2019, and (iii) 5,479,452 shares, representing the weighted average of 100,000,000 new ordinary shares issued pursuant to the Share Offer.

For the year ended 31 December 2020 and the six months ended 30 June 2020 and 2021, the weighted average number of ordinary shares is 400,000,000.

Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares during the Track Record Period.

11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executives' emoluments

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2018				
<i>Executive directors:</i>				
Mr. Sieh (<i>Chairman</i>) (<i>note (i)</i>)	–	696	18	714
Mr. Ho (<i>Chief executive officer</i>) (<i>note (ii)</i>)	–	696	18	714
	<u>–</u>	<u>1,392</u>	<u>36</u>	<u>1,428</u>
Year ended 31 December 2019				
<i>Executive directors:</i>				
Mr. Sieh (<i>Chairman</i>) (<i>note (i)</i>)	–	720	18	738
Mr. Ho (<i>Chief executive officer</i>) (<i>note (ii)</i>)	–	720	18	738
<i>Independent non-executive directors:</i>				
Mr. Kwong Che Sing (<i>note (iii)</i>)	–	8	–	8
Mr. Ling Siu Tsang (<i>note (iii)</i>)	–	8	–	8
Mr. Tso Ping Cheong Brian (<i>note (iii)</i>)	–	8	–	8
	<u>–</u>	<u>1,464</u>	<u>36</u>	<u>1,500</u>
Year ended 31 December 2020				
<i>Executive directors:</i>				
Mr. Sieh (<i>Chairman</i>) (<i>note (i)</i>)	–	1,200	18	1,218
Mr. Ho (<i>Chief executive officer</i>) (<i>note (ii)</i>)	–	1,200	18	1,218
<i>Independent non-executive directors:</i>				
Mr. Kwong Che Sing (<i>note (iii)</i>)	–	150	–	150
Mr. Ling Siu Tsang (<i>note (iii)</i>)	–	150	–	150
Mr. Tso Ping Cheong Brian (<i>note (iii)</i>)	–	150	–	150
	<u>–</u>	<u>2,850</u>	<u>36</u>	<u>2,886</u>

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2020				
(Unaudited)				
<i>Executive directors:</i>				
Mr. Sieh (<i>Chairman</i>) (<i>note (i)</i>)	–	600	9	609
Mr. Ho (<i>Chief executive officer</i>) (<i>note (ii)</i>)	–	600	9	609
<i>Independent non-executive directors:</i>				
Mr. Kwong Che Sing (<i>note (iii)</i>)	–	75	–	75
Mr. Ling Siu Tsang (<i>note (iii)</i>)	–	75	–	75
Mr. Tso Ping Cheong Brian (<i>note (iii)</i>)	–	75	–	75
	<u>–</u>	<u>1,425</u>	<u>18</u>	<u>1,443</u>

Six months ended 30 June 2021

<i>Executive directors:</i>				
Mr. Sieh (<i>Chairman</i>) (<i>note (i)</i>)	–	600	9	609
Mr. Ho (<i>Chief executive officer</i>) (<i>note (ii)</i>)	–	600	9	609
<i>Independent non-executive directors:</i>				
Mr. Kwong Che Sing (<i>note (iii)</i>)	–	75	–	75
Mr. Ling Siu Tsang (<i>note (iii)</i>)	–	75	–	75
Mr. Tso Ping Cheong Brian (<i>note (iii)</i>)	–	75	–	75
	<u>–</u>	<u>1,425</u>	<u>18</u>	<u>1,443</u>

Notes:

- (i) Mr. Sieh was a director of the Company's subsidiary during the Track Record Period and was appointed as a director of the Company on 30 January 2019. He was redesignated as an executive director of the Company in February 2019 and appointed as the Chairman of the board of directors of the Company in March 2019.
- (ii) Mr. Ho was a director of the Company's subsidiary during the Track Record Period and was appointed as a director of the Company on 30 January 2019. He was redesignated as an executive director of the Company in February 2019 and appointed as chief executive officer of the Company in March 2019.
- (iii) Mr. Kwong Che Sing, Mr. Ling Siu Tsang and Mr. Tso Ping Cheong Brian were appointed as independent non-executive directors of the Company on 25 November 2019. During the year ended 31 December 2018, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.

- (iv) The emoluments shown above were for the services in connection with the management of the affairs of the Group during the Track Record Period.
- (v) No emoluments were paid by the Group to a director as an inducement to join or upon joining the Group or as compensation for loss of office as a director or management of any members of the Group during the Track Record Period.
- (vi) There was no arrangement under which a director has waived or agreed to waive any emolument during the Track Record Period.

(b) Five highest paid individuals

For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, the five individuals whose emoluments were the highest in the Group included two, two, two, two and two directors respectively whose emoluments are disclosed in note 11(a). The aggregate of the emoluments in respect of the remaining three, three, three, three and three individuals are as follows:

	Year ended 31 December			Six months ended	
	2018	2019	2020	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, fee and allowances	1,579	1,920	2,479	1,579	1,043
Retirement scheme contributions	50	54	58	27	27
	<u>1,629</u>	<u>1,974</u>	<u>2,537</u>	<u>1,606</u>	<u>1,070</u>

The emoluments fell within the following bands:

	Year ended 31 December			Six months ended	
	2018	2019	2020	2020	2021
				(Unaudited)	
Emolument bands:					
Nil – HK\$1,000,000	3	3	2	3	3
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$'000 (note)	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2018						
Cost	–	–	1,463	1,030	600	3,093
Accumulated depreciation	–	–	(614)	(95)	(381)	(1,090)
Net book amount	–	–	849	935	219	2,003
Year ended 31 December 2018						
Opening net book amount	–	–	849	935	219	2,003
Additions	–	95	24	–	187	306
Disposals	–	–	–	–	(54)	(54)
Depreciation	–	(6)	(260)	(206)	(142)	(614)
Closing net book amount	–	89	613	729	210	1,641
At 31 December 2018 and 1 January 2019						
Cost	–	95	1,487	1,030	672	3,284
Accumulated depreciation	–	(6)	(874)	(301)	(462)	(1,643)
Net book amount as at 31 December 2018	–	89	613	729	210	1,641
Impact on initial application of HKFRS 16 (note 2.2)	845	–	–	–	–	845
Net book amount as at 1 January 2019, restated	845	89	613	729	210	2,486
Year ended 31 December 2019						
Opening net book amount as at 1 January 2019, restated	845	89	613	729	210	2,486
Additions	–	–	306	376	668	1,350
Disposals	–	–	–	–	(7)	(7)
Depreciation	(507)	(19)	(288)	(206)	(117)	(1,137)
Closing net book amount	338	70	631	899	754	2,692
At 31 December 2019 and 1 January 2020						
Cost	845	95	1,793	1,406	981	5,120
Accumulated depreciation	(507)	(25)	(1,162)	(507)	(227)	(2,428)
Net book amount	338	70	631	899	754	2,692
Year ended 31 December 2020						
Opening net book amount	338	70	631	899	754	2,692
Additions	501	66	22	2,368	1,024	3,981
Disposals	–	–	–	–	(10)	(10)
Written-off	–	(57)	–	–	–	(57)
Depreciation	(422)	(17)	(278)	(584)	(357)	(1,658)
Closing net book amount	417	62	375	2,683	1,411	4,948
At 31 December 2020						
Cost	501	66	1,815	3,774	1,906	8,062
Accumulated depreciation	(84)	(4)	(1,440)	(1,091)	(495)	(3,114)
Net book amount	417	62	375	2,683	1,411	4,948

	Building HK\$'000 (note)	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Six months ended 30 June 2021						
Opening net book amount	417	62	375	2,683	1,411	4,948
Additions	–	–	167	162	–	329
Disposals	–	–	(94)	–	–	(94)
Depreciation	(125)	(7)	(90)	(402)	(297)	(921)
Closing net book amount	<u>292</u>	<u>55</u>	<u>358</u>	<u>2,443</u>	<u>1,114</u>	<u>4,262</u>
At 30 June 2021						
Cost	501	66	845	3,936	1,906	7,254
Accumulated depreciation	(209)	(11)	(487)	(1,493)	(792)	(2,992)
Net book amount	<u>292</u>	<u>55</u>	<u>358</u>	<u>2,443</u>	<u>1,114</u>	<u>4,262</u>

Note: The Group has obtained the right to use a premises through the tenancy agreement. The lease typically run on an initial period of 2 years. The Group makes fixed payments during the contract period. As at 31 December 2019 and 2020 and 30 June 2021, the carrying amounts of the Group's right-of-use assets in relation to the building are HK\$338,000, HK\$417,000 and HK\$292,000 respectively.

During the year ended 31 December 2020, the Group has entered into a new lease for office premise. The lease period for this new lease is for two years.

13. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (note (i))	3,975	10,569	18,713	12,800
Prepayments (note (ii))	4,108	1,988	2,788	3,239
Deposits (note (iii))	<u>849</u>	<u>4,910</u>	<u>810</u>	<u>944</u>
	8,932	17,467	22,311	16,983
Less: non-current portion				
Deposits paid for acquisition of property, plant and equipment (note (iii))	<u>–</u>	<u>(723)</u>	<u>–</u>	<u>–</u>
Current portion	<u>8,932</u>	<u>16,744</u>	<u>22,311</u>	<u>16,983</u>

The directors consider that the fair values of trade and other receivables are not materially different from their carrying amounts, because their balances have short maturity periods on their inception.

Notes:

(i) Trade receivables

The Group grants credit terms to customers for a period of 30 to 60 days from the invoice date for trade receivables. For settlement of trade receivables from provision of undertaking slope works, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgement and experience of the management.

Based on the invoice date, the ageing analysis of the trade receivables is as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	3,856	10,569	12,496	–
31 – 90 days	–	–	6,217	12,800
91 – 365 days	119	–	–	–
	<u>3,975</u>	<u>10,569</u>	<u>18,713</u>	<u>12,800</u>

The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime ECL provision for all trade receivables. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the ECL rate for trade receivables are 0.26%, nil, nil and 0.05% respectively.

(ii) **Prepayments**

The Group

As at 31 December 2018, 2019 and 2020 and 30 June 2021, prepayments mainly comprised of: (1) prepaid listing expenses amounted to HK\$1,861,000, nil, nil and nil respectively; (2) prepaid Transfer of Listing expenses amounted to nil, nil, HK\$851,000 and nil respectively; and (3) prepaid expenses for insurance covered in sites operation and machinery rentals expenses amounted to HK\$2,193,000, HK\$1,607,000, HK\$1,701,000 and HK\$3,217,000 respectively.

The Company

As at 31 December 2019 and 2020, prepayments mainly comprised of: (1) prepaid Transfer of Listing expenses amounted to nil and HK\$851,000 respectively; (2) prepaid professional fee amounted to HK\$275,000 and HK\$213,000 respectively; and (3) other prepaid expenses amounted to HK\$106,000 and nil respectively.

(iii) **Deposits**

As at 31 December 2018, 2019 and 2020 and 30 June 2021, deposits mainly comprise of: (1) a performance bond amounted to nil, HK\$3,100,000, nil and nil paid to an insurance company respectively; and (2) deposits paid for acquisition of property, plant and equipment amounted to nil, HK\$723,000, nil and nil respectively. The deposit of performance bond was released during the year ended 31 December 2020.

14. CONTRACT ASSETS

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unbilled revenue	15,927	17,847	38,573	30,596
Retention receivables	1,206	3,351	11,921	15,656
	<u>17,133</u>	<u>21,198</u>	<u>50,494</u>	<u>46,252</u>

Contract assets represent the Group's right to considerations from customers for the provision of undertaking slope work, which arise when: (i) the Group completed the relevant services under such contracts but not yet certified by the customers or their appointed architects, surveyors or other representatives; and (ii) the customers withhold certain certified amounts payable to the Group as retention money to secure the due performance of the contracts after the expiry of the defect liability period of construction projects. Any amount

previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to the customer. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the ECL rate for contract assets are 0.26%, nil, nil and 0.05% respectively.

Changes of contract assets during the Track Record Period were mainly due to:

- (i) Changes in retention receivables as a result of an increase in number of ongoing and completed contracts under the defect liability period during the Track Record Period;
- (ii) Changes in number of contract works that the relevant services were completed but not yet been certified at the end of Track Record Period; and
- (iii) Performance bonds amounting to HK\$8,000,000 paid to its customer to secure the due performance of construction projects and are recognised as retention receivables during the year ended 31 December 2020.

Movements in the contract assets balances during the Track Record Period are as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Transfers from contract assets recognised at the beginning of the year to trade receivables	<u>10,605</u>	<u>15,779</u>	<u>18,622</u>	<u>39,616</u>

No contract liability was noted during the Track Record Period.

15. CASH AND BANK BALANCES

	At 31 December			At 30 June
	2018	2019	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at banks and in hand	12,434	21,701	51,455	73,980
Short-term bank deposits	<u>–</u>	<u>45,000</u>	<u>32,076</u>	<u>22,117</u>
	<u>12,434</u>	<u>66,701</u>	<u>83,531</u>	<u>96,097</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates during the Track Record Period. During the years ended 31 December 2019 and 2020 and 30 June 2021, the short-term bank deposits earn at 0.50% to 2.77%, 0.35% to 0.50% and 0.25% interest per annum with a maturity of one month, three months and three months respectively.

The directors consider that the fair values of the short-term bank deposits are not materially different from their carrying amounts because their balances have short maturity periods on their inception.

16. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (<i>note (i)</i>)	7,226	12,286	28,324	11,413
Accruals and other payables (<i>note (ii)</i>)	350	2,250	2,300	2,695
Deferred government grant (<i>note (iii)</i>)	–	–	738	–
	<u>7,576</u>	<u>14,536</u>	<u>31,362</u>	<u>14,108</u>

Notes:

(i) Trade payables

The Group is granted by its suppliers a credit period ranging from 0 to 45 days. The ageing analysis of trade payables based on the invoice date is as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	7,192	11,185	28,233	9,662
31 – 60 days	–	999	–	1,148
61 – 90 days	7	–	–	–
91 – 365 days	27	102	91	512
Over 365 days	–	–	–	91
	<u>7,226</u>	<u>12,286</u>	<u>28,324</u>	<u>11,413</u>

(ii) Accruals and other payables

The Group

As at 31 December 2018, 2019 and 2020 and 30 June 2021, accruals and other payables mainly comprised of: (1) other payables to subcontractor amounted to HK\$231,000, HK\$456,000, HK\$379,000 and HK\$386,000 respectively; (2) advance payment from customers amounted to HK\$96,000, HK\$23,000, HK\$757,000 and HK\$527,000 respectively; (3) accrued Transfer of Listing expenses amounted to nil, nil, HK\$464,000 and HK\$1,307,000 respectively; and (4) accrued professional fee amounted to HK\$23,000, HK\$1,769,000, HK\$700,000 and HK\$475,000, respectively.

The Company

As at 31 December 2019 and 2020 and 30 June 2021, accruals mainly comprised of: (1) accrued Transfer of Listing expenses amounted to nil, HK\$464,000 and HK\$1,307,000 respectively; and (2) accrued professional fee amounted to HK\$1,769,000, HK\$700,000 and HK\$475,000 respectively.

(iii) Deferred government grant

As at 31 December 2020, deferred government grant related to Employment Support Scheme for the Construction Sector (Casual Employees) under Anti-epidemic Fund provided by the Government of Hong Kong Special Administrative Region. The government grant is credited to the consolidated statements of profit or loss and other comprehensive income upon fulfilment of the conditions and on a straight line basis over the period necessary to match them with the costs that the grant is intended to compensate. The grant is recognised in profit or loss during the six months ended 30 June 2021.

- (iv) All amounts are short-term and hence, the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

17. AMOUNTS DUE TO DIRECTORS

Particulars of amounts due to directors are as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Ho	2,247	–	–	–
Mr. Sieh	2,684	–	–	–
	<u>4,931</u>	<u>–</u>	<u>–</u>	<u>–</u>

The dividend of HK\$9,999,000 was paid by setting off against the amount due from Mr. Sieh and Mr. Ho amounting to HK\$1,362,000 during the year ended 31 December 2018. Details is disclosed in note 9(i).

The amounts due to directors are non-trade in nature. The amounts due are unsecured, non-interest bearing and repayable on demand. The fair values approximate their carrying amounts at each of the reporting dates.

18. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	At 31 December		At 30 June
	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000
Total minimum lease payments:			
Within one year	335	276	276
After one year but within two years	–	184	46
	<u>335</u>	<u>460</u>	<u>322</u>
Less: Future finance charges on lease liabilities	(6)	(19)	(10)
Present value of lease liabilities	<u>329</u>	<u>441</u>	<u>312</u>
Present value of minimum lease payments:			
Within one year	329	260	266
After one year but within two years	–	181	46
	<u>329</u>	<u>441</u>	<u>312</u>
Less: Portion due within one year included under current liabilities	<u>(329)</u>	<u>(260)</u>	<u>(266)</u>
Portion due after one year included under non-current liabilities	<u>–</u>	<u>181</u>	<u>46</u>

During the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, the total cash outflows for the leases are approximately HK\$4,286,000, HK\$6,118,000 and HK\$5,966,000 respectively.

19. DEFERRED TAX LIABILITIES

During the Track Record Period, deferred taxation is calculated in full on temporary differences under the liability method using the average tax rates that are expected to apply to the taxable profit of the year/period in which the temporary differences are expected to be utilised.

The movement in deferred tax liabilities during the Track Record Period and recognised in the consolidated statements of the financial position as at each reporting date are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>
As at 1 January 2018	309
Credited to profit or loss (<i>note 8</i>)	<u>(121)</u>
As at 31 December 2018 and 1 January 2019	188
Charged to profit or loss (<i>note 8</i>)	<u>69</u>
As at 31 December 2019 and 1 January 2020	257
Charged to profit or loss (<i>note 8</i>)	<u>202</u>
As at 31 December 2020 and 1 January 2021	459
Credited to profit or loss (<i>note 8</i>)	<u>(67)</u>
As at 30 June 2021	<u><u>392</u></u>

20. SHARE CAPITAL

For the purpose of the preparation of the consolidated statements of financial position, the balance of share capital at 31 December 2018 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group prior to the Reorganisation.

Movements of the authorised and issued share capital of the Company for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021 are as follows:

	Number of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each upon incorporation	38,000,000	380
Increase in authorised share capital (<i>note (iii)</i>)	<u>962,000,000</u>	<u>9,620</u>
As at 31 December 2019 and 2020 and 30 June 2021	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
Upon incorporation (<i>note (i)</i>)	1	—*
Issuance of shares upon the Reorganisation (<i>note (ii)</i>)	2,000	—*
Issue of share upon public offering and placing (<i>note (iv)</i>)	100,000,000	1,000
Capitalisation issue of shares (<i>note (v)</i>)	<u>299,997,999</u>	<u>3,000</u>
As at 31 December 2019 and 2020 and 30 June 2021	<u><u>400,000,000</u></u>	<u><u>4,000</u></u>

* The balances represented an amount less than HK\$1,000.

Notes:

- (i) On 30 January 2019, the Company issued and allotted one share, credited as fully paid at par, to the initial subscriber, which was then transferred to Good Hill on the same date for a consideration of HK\$0.01.
- (ii) On 15 March 2019, Mr. Ho and Mr. Sieh transferred 500 shares of A-City each, in aggregate representing the entire issued share capital of A-City, to Kanic International for a consideration of HK\$26,780,000, which was determined based on the net asset value of A-City as at 31 December 2018 and settled by (a) Kanic International by issuing and allotting 10 shares, credited as fully paid at a premium, to the Company; (b) the Company by issuing and allotting 2,000 shares, credited as fully paid at a premium, to Good Hill; and (c) Good Hill by issuing and allotting one share, credited as fully paid at a premium, to each of Mr. Ho and Mr. Sieh.
- (iii) On 25 November 2019, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to HK\$10,000,000 divided into 1,000,000,000 shares by the creation of additional 962,000,000 new shares pursuant to a written resolution passed by the sole shareholder of the Company.
- (iv) On 12 December 2019, the Company issued a total of 100,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.6 per share in relation to the public offering and placing of the Company's shares. Of the gross total proceeds of HK\$60,000,000, HK\$1,000,000 representing the par value was credited to the Company's share capital, and HK\$59,000,000 before reduction of the share issuance expenses of HK\$5,916,000, was credited to the share premium account.
- (v) Pursuant to the written resolutions of the shareholders passed on 25 November 2019, subject to the share premium account of the Company being credited as a result of the Share Offer, the directors were authorised to allot and issue a total of 299,997,999 ordinary shares of HK\$0.01 each, credited as fully paid at par, by way of capitalisation of the sum of approximately HK\$2,999,980 from the share premium account to the Company. The Capitalisation Issue was completed on 13 December 2019. The shares allotted and issued rank *pari passu* in all respects with the then existing issued shares.

21. RESERVES**(a) The Group**

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 are presented in the consolidated statements of changes in equity.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Act of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group as at 31 December 2019 and 2020 and 30 June 2021 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group.

Retained earnings

Retained earnings represent accumulated net profit or losses less dividends paid.

(b) The Company

The movements of the Company's reserves are as follows:

	Share premium <i>(note 21(a))</i> HK\$'000	Capital reserve <i>(note)</i> HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Issuance of shares upon the Reorganisation <i>(note 20(ii))</i>	–	26,780	–	26,780
Issue of share upon public offering and placing <i>(note 20(iv))</i>	53,084	–	–	53,084
Capitalisation Issue <i>(note 20(v))</i>	(3,000)	–	–	(3,000)
Loss and total comprehensive expense for the period	–	–	(17,711)	(17,711)
Balance as at 31 December 2019 and 1 January 2020	50,084	26,780	(17,711)	59,153
Loss and total comprehensive expense for the year	–	–	(1,255)	(1,255)
Balance as at 31 December 2020 and 1 January 2021	50,084	26,780	(18,966)	57,898
Loss and total comprehensive expense for the period	–	–	(6,484)	(6,484)
Balance as at 30 June 2021	50,084	26,780	(25,450)	51,414

Note: Capital reserve represents the difference between the total equity of Kanic International over the nominal value of the Company's shares issued under the Reorganisation as described in note 20(ii).

22. LEASE COMMITMENTS**As lessee**

At the end of the reporting date, the lease commitments for short-term leases (2018: the total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	503	–	–	–
In the second to fifth years	336	–	–	–
	839	–	–	–

As at 31 December 2018, the Group is the lessee in respect of premises under operating leases. The leases typically run for an initial period of two years. The leases do not include contingent rentals. As at 1 January 2019, the Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statements of financial position in accordance with the policies set out in note 2.12, and the details regarding the Group's future lease payments are disclosed in note 18.

23. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2018	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for property, plant and equipment	–	2,275	–	–

24. RELATED PARTY TRANSACTIONS

In addition to the balances and transactions detailed elsewhere in the Historical Financial Information, the Group had the following related party transactions during the Track Record Period.

(a) Balances with related parties

Details of the balances with related parties are disclosed in note 17.

(b) Key management personnel remuneration

The emoluments of the directors and senior management of the Company, who represent the key management personnel during the Track Record Period are as follows:

	Year ended 31 December			Six months ended	
	2018	2019	2020	30 June	
	HK\$'000	HK\$'000	HK\$'000	2020	2021
Salaries, fee and allowances	1,392	2,821	4,302	2,382	1,980
Retirement benefit scheme contributions	36	72	72	36	36
	<u>1,428</u>	<u>2,893</u>	<u>4,374</u>	<u>2,418</u>	<u>2,016</u>

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Amounts due to directors <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2018	4,931	–	4,931
Impact on initial application of HKFRS 16 (note 2.2)	<u>–</u>	<u>803</u>	<u>803</u>
At 1 January 2019	4,931	803	5,734
Change from financing cash flows:			
Payment of lease liabilities	–	(474)	(474)
Interest paid	–	(30)	(30)
Repayment to the directors	(4,931)	–	(4,931)
Other change:			
Finance charges on lease liabilities	<u>–</u>	<u>30</u>	<u>30</u>
At 31 December 2019	<u><u>–</u></u>	<u><u>329</u></u>	<u><u>329</u></u>
At 1 January 2020	–	329	329
Change from financing cash flows:			
Payment of lease liabilities	–	(389)	(389)
Interest paid	–	(15)	(15)
Other changes:			
Capital element upon entering of new leases	–	501	501
Finance charges on lease liabilities	<u>–</u>	<u>15</u>	<u>15</u>
At 31 December 2020	<u><u>–</u></u>	<u><u>441</u></u>	<u><u>441</u></u>
At 1 January 2021	–	441	441
Change from financing cash flows:			
Payment of lease liabilities	–	(129)	(129)
Interest paid	–	(10)	(10)
Other changes:			
Finance charges on lease liabilities	<u>–</u>	<u>10</u>	<u>10</u>
At 30 June 2021	<u><u>–</u></u>	<u><u>312</u></u>	<u><u>312</u></u>

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the board of directors.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

26.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and liabilities:

	At 31 December		At 30 June	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000
Financial assets				
Financial assets at amortised cost				
– Trade and other receivables	4,824	14,756	19,523	13,744
– Cash and bank balances	12,434	66,701	83,531	96,097
	<u>17,258</u>	<u>81,457</u>	<u>103,054</u>	<u>109,841</u>
Financial liabilities				
Financial liabilities measured at amortised cost				
– Trade and other payables	7,576	14,536	30,624	14,108
– Lease liabilities	–	329	441	312
– Amounts due to directors	4,931	–	–	–
	<u>12,507</u>	<u>14,865</u>	<u>31,065</u>	<u>14,420</u>

26.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The exposure to interest rate risk for the Group's bank balances is considered immaterial.

26.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk on recognised financial assets and contract assets is limited to their respective carrying amount at the end of Track Record Period.

In respect of trade and other receivables and contract assets, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable and contract asset balance at the end of Track Record Period to ensure adequate impairment losses are made for irrecoverable amounts.

At 31 December 2018, 2019 and 2020 and 30 June 2021, the Group has concentration of credit risk as 57%, 88%, 55% and 68% and 100%, 100%, 100% and 100% of the total trade receivables (note 13) were due from the Group's largest customers, amounting to approximately HK\$2,247,000, HK\$9,339,000, HK\$10,243,000 and HK\$12,800,000 respectively, and five largest customers, amounting to approximately HK\$3,975,000, HK\$10,569,000, HK\$18,713,000 and HK\$12,800,000 respectively.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the Track Record Period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the end of Track Record Period with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Internal credit rating, actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations, actual or expected significant changes in the operating results of the borrower and significant changes in the expected performance and behaviour of the borrower including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower are indicators to be incorporated.

The Group accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the ECL rates, the Group considers historical elements and forward-looking elements.

(i) Trade receivables and contract assets

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade receivables and contract assets.

Assessed lifetime ECL rates of contract assets and trade receivables are 0.26%, nil, nil and 0.01% for the years/period ended 31 December 2018, 2019, 2020 and 30 June 2021 as there are no recent history of default and continuous payment received based on historical credit loss experience and forward-looking elements of the Group. It was determined that no loss allowance provision is necessary in respect of these balances as there has not been a significant change in credit quality of the customers.

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and deposits and cash and bank balances. In order to minimise the credit risk of other receivables and deposits, the management makes periodic collective and individual assessment on their recoverability based on historical settlement records and past experience as well as available forward-looking information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables and deposits are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables and deposits since initial recognition as the risk of default is low after considering the factors as set out in note 2.8 and, thus, ECL is assessed based on 12-month ECL. The Group assessed that the ECL rate for other receivables and deposits are not material under the 12-month ECL. Thus, no loss allowance provision was recognised during the Track Record Period.

The credit risks on cash and bank balances are considered to be insignificant because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Thus, no loss allowance provision was recognised during the Track Record Period.

26.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables, amounts due to directors and lease liabilities, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

Analysed below is the Group's remaining contractual maturities for its financial liabilities at the end of the reporting date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	On demand or within 1 year HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2018					
Trade and other payables	7,576	–	–	7,576	7,576
Amounts due to directors	4,931	–	–	4,931	4,931
	<u>12,507</u>	<u>–</u>	<u>–</u>	<u>12,507</u>	<u>12,507</u>
	Within 1 year or on demand HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2019					
Trade and other payables	14,536	–	–	14,536	14,536
Lease liabilities	335	–	–	335	329
	<u>14,871</u>	<u>–</u>	<u>–</u>	<u>14,871</u>	<u>14,865</u>
	Within 1 year or on demand HK\$'000	Over 1 year but within 2 years HK\$'000	Over 2 years but within 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2020					
Trade and other payables	30,624	–	–	30,624	30,624
Lease liabilities	276	184	–	460	441
	<u>30,900</u>	<u>184</u>	<u>–</u>	<u>31,084</u>	<u>31,065</u>

	Within 1 year or on demand <i>HK\$'000</i>	Over 1 year but within 2 years <i>HK\$'000</i>	Over 2 years but within 5 years <i>HK\$'000</i>	Total contractual undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
As at 30 June 2021					
Trade and other payables	14,108	–	–	14,108	14,108
Lease liabilities	<u>276</u>	<u>46</u>	<u>–</u>	<u>322</u>	<u>312</u>
	<u>14,384</u>	<u>46</u>	<u>–</u>	<u>14,430</u>	<u>14,420</u>

26.5 Fair value measurement

The carrying amounts of the financial instrument of the Group carried at amortised cost are not materially different from their fair values at the end of Track Record Period due to their short maturities.

27. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain capital structure in order to minimise the costs of capital, support its business and maximise shareholders' value.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as lease liabilities net of cash and bank balance. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, share buyback, issue new shares and raise new debts.

The Group's net debt to equity ratio at each reporting date was as follows:

	As at 31 December			At 30 June
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Lease liabilities	–	329	441	312
Less: cash and bank balances	<u>(12,434)</u>	<u>(66,701)</u>	<u>(83,531)</u>	<u>(96,097)</u>
Net debt	<u>(12,434)</u>	<u>(66,372)</u>	<u>(83,090)</u>	<u>(95,785)</u>
Total equity	<u>26,562</u>	<u>87,512</u>	<u>126,862</u>	<u>142,647</u>
Net debt to equity ratio	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

28. POTENTIAL LITIGATION

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group has been involved in certain potential litigations and claims against the Group regarding the employees' compensation and common law personal injury claim as detailed in the section headed "Business – Litigation and claims" in the Listing Document. The directors are of the opinion that the potential litigations and claims are not expected to have a material impact on the Group's Historical Financial Information, and the outcome for potential claims is uncertain. Accordingly, no provision has been made to the Historical Financial Information.

29. PERFORMANCE BOND

As at 31 December 2019, certain performance bonds totalling HK\$9,000,000 was issued by an insurance company in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customers.

The performance bonds were secured by (i) corporate guarantees given by the Company; and (ii) a pledged deposit in the sum of HK\$3,100,000 (as included in deposits in note 13) placed by A-City with the insurance company for the year ended 31 December 2019. The deposit of performance bond was released during the year ended 31 December 2020.

III. EVENTS AFTER THE REPORTING PERIOD

There were no significant events took place subsequent to 30 June 2021.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2021.

APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

The following is the financial information of our Group for the nine months ended 30 September 2021, which has been prepared in accordance with the HKFRSs. Accordingly, our Directors consider there is no material variation between the accounting principles, practices and methods used in preparing the financial information for the nine months ended 30 September 2021 and our audited financial information during the Track Record Period.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	67,172	68,819	221,963	189,663
Cost of services		<u>(54,991)</u>	<u>(53,823)</u>	<u>(180,987)</u>	<u>(152,051)</u>
Gross profit		12,181	14,996	40,976	37,612
Other income, gains and losses, net	4	412	5,053	1,905	5,393
Administrative expenses		(1,684)	(1,866)	(6,613)	(7,040)
Transfer of Listing and related expenses		(857)	–	(6,514)	–
Finance costs		<u>(3)</u>	<u>(2)</u>	<u>(13)</u>	<u>(8)</u>
Profit before income tax	5	10,049	18,181	29,741	35,957
Income tax expense	6	<u>(1,790)</u>	<u>(1,934)</u>	<u>(5,698)</u>	<u>(5,004)</u>
Profit and total comprehensive income for the period		<u>8,259</u>	<u>16,247</u>	<u>24,043</u>	<u>30,953</u>
Earnings per share attributable to equity holders of the Company					
Basic and diluted	7	<u>HK2.1 cents</u>	<u>HK4.1 cents</u>	<u>HK6.0 cents</u>	<u>HK7.7 cents</u>

**APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR
THE NINE MONTHS ENDED 30 SEPTEMBER 2021**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
EQUITY**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020 (Audited)	4,000	50,084	1	33,427	87,512
Profit and total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>30,953</u>	<u>30,953</u>
At 30 September 2020 (Unaudited)	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>64,380</u>	<u>118,465</u>
At 1 January 2021 (Audited)	4,000	50,084	1	72,777	126,862
Profit and total comprehensive income for the period attributable to equity holders of the Company	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,043</u>	<u>24,043</u>
At 30 September 2021 (Unaudited)	<u>4,000</u>	<u>50,084</u>	<u>1</u>	<u>96,820</u>	<u>150,905</u>

APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Maxicity Holdings Limited was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act of the Cayman Islands on 30 January 2019. The addresses of the Company's registered office and principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. With effect from 2 September 2020, the address of principal place of business of the Company has been changed to Unit 1A, 6/F, Harbour Crystal Centre, 100 Granville Road, Tsim Sha Tsui, Hong Kong from Room 2302-2303, 23/F., Omega Plaza, 32-34A Dundas Street, Mongkok, Hong Kong.

The Company's shares (the "Shares") are listed on the GEM of the Stock Exchange on 13 December 2019 (the "Listing").

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in undertaking slope works in Hong Kong. The Company's immediate and ultimate holding company is Good Hill Investment Limited, a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling shareholders of the Group are Mr. Sieh Shing Kee ("Mr. Sieh") and Mr. Ho Ka Ki ("Mr. Ho") (collectively, the "Controlling Shareholders").

The condensed consolidated financial statements of the Group (the "Condensed Consolidated Financial Statements") for the nine months ended 30 September 2021 and 2020 are unaudited, but have been reviewed by the audit committee of the Company, and were approved and authorised for issue by the Directors on 10 November 2021 and 4 November 2020 respectively.

2. BASIS OF PREPARATION

2.1 General

The Condensed Consolidated Financial Statements for the nine months ended 30 September 2021 have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Condensed Consolidated Financial Statements do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2020.

The Condensed Consolidated Financial Statements have been prepared under the historical cost basis. The Condensed Consolidated Financial Statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand ("HK\$'000"), except where otherwise indicated.

The Condensed Consolidated Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's annual financial statements for the year ended 31 December 2020, except for the adoption of the amended HKFRSs effective as of January 2021.

The preparation of the Condensed Consolidated Financial Statements is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group's accounting policies.

The Condensed Consolidated Financial Statements for the nine months ended 30 September 2021 have been reviewed by the Company's reporting accountant, Grant Thornton Hong Kong Limited.

APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

3. REVENUE

The Group's principal activities are disclosed in note 1 to the Condensed Consolidated Financial Statements. Revenue represents income arising on the provision of slope works to external customers. The Group's revenue is recognised over time.

	Three months ended 30 September		Nine months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Provision of slope works				
– Public sector projects	58,299	56,481	197,477	167,906
– Private sector projects	8,873	12,338	24,486	21,757
	<u>67,172</u>	<u>68,819</u>	<u>221,963</u>	<u>189,663</u>

4. OTHER INCOME, GAINS AND LOSSES, NET

	Three months ended 30 September		Nine months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Bank interest income	15	65	65	325
Gain/(loss) on disposal of property, plant and equipment	3	(5)	117	(5)
Government grant ^(note)	–	4,912	1,321	4,991
Sundry income	394	81	402	82
	<u>412</u>	<u>5,053</u>	<u>1,905</u>	<u>5,393</u>

Note:

During the nine months ended 30 September 2021, the Group recognised the subsidies of approximately HK\$1.3 million (nine months ended 30 September 2020: HK\$5.0 million) provided by the Government of Hong Kong Special Administrative Region as part of the relief measures on COVID-19 pandemic.

**APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR
THE NINE MONTHS ENDED 30 SEPTEMBER 2021**

5. PROFIT BEFORE INCOME TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit before income tax is arrived at after charging:				
Depreciation, included in				
Cost of services				
– owned assets	390	335	1,170	833
Administrative expenses				
– owned assets	8	14	24	41
– right-of-use assets	63	106	188	359
	<u>461</u>	<u>455</u>	<u>1,382</u>	<u>1,233</u>
 Auditor's remuneration	 <u>150</u>	 <u>150</u>	 <u>450</u>	 <u>450</u>

6. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Provision for Hong Kong				
Profits Tax				
– Current tax	1,746	1,800	5,721	4,700
Deferred tax	44	134	(23)	304
	<u>1,790</u>	<u>1,934</u>	<u>5,698</u>	<u>5,004</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%.

For the nine months ended 30 September 2021 and 2020, Hong Kong Profits Tax of A-City Workshop Limited, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime. Profit tax of other group entities continue to be taxed at the flat rate of 16.5%.

APPENDIX IA FINANCIAL INFORMATION OF OUR GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

7. EARNINGS PER SHARE

	Three months ended		Nine months ended	
	30 September		30 September	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings for the purpose of calculating basic earnings per share (profit for the period) (<i>HK\$'000</i>)	<u>8,259</u>	<u>16,247</u>	<u>24,043</u>	<u>30,953</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (<i>in thousand</i>)	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>

There were no dilutive potential ordinary shares during the nine months ended 30 September 2021 and 2020 and therefore, diluted earnings per share equals to basic earnings per share.

8. DIVIDEND

The Directors of the Company do not recommend the payment of any dividend during the nine months ended 30 September 2021 (nine months ended 30 September 2020: Nil).

REVIEW OF OUR FINANCIAL INFORMATION OF OUR GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

Our financial information for the nine months ended 30 September 2021 has been reviewed by our reporting accountant in accordance with *Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this Appendix does not form part of the Accountants' Report on the financial information of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021 issued by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this listing document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this listing document and the Accountants' Report set forth in Appendix I to this listing document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company which has been prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the Transfer of Listing on the unaudited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 or any future date following the Transfer of Listing.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company is based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 as derived from the Accountants' Report set out in Appendix I to this listing document, and adjusted as follows:

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated listing expenses <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 per Share <i>HK\$</i> <i>(Note 3)</i>
Based on 400,000,000 ordinary shares	142,647	(6,144)	136,503	0.34

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The amount is based on audited consolidated net assets of the Group attributable to equity holders of the Company as at 30 June 2021 amounting to approximately HK\$142,647,000, extracted from the Accountants' Report set out in Appendix I to this listing document.
- (2) The estimated listing expenses mainly include professional fees paid/payable to professional parties related to the Transfer of Listing, which are expected to be incurred by the Group subsequent to 30 June 2021.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per share is arrived at after the adjustment as described in note 2 above and based on 400,000,000 ordinary shares of the Company in issue as at 30 June 2021.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2021 to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2021.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Company's unaudited pro forma financial information prepared for the purpose of incorporation in this listing document.



23 December 2021

TO THE DIRECTORS OF MAXICITY HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Maxicity Holdings Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 June 2021 and related notes as set out on pages II-1 to II-2 of Appendix II to the listing document issued by the Company dated 23 December 2021 (the “Listing Document”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Listing Document.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed transfer of listing of the Company's shares from GEM to the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Transfer of Listing”) on the Group's financial position as at 30 June 2021 as if the Transfer of Listing had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the three years ended 31 December 2020 and the six months ended 30 June 2021, on which an Accountants' Report set out in Appendix I to the Listing Document has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Main Board Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Listing Document is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Grant Thornton Hong Kong Limited

Certified Public Accountants

11th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong SAR

Chan Tze kit
Practising Certificate No.: P05707

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2019 under the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Act**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange (the “**Listing Rules**”) that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the Listing Rules that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by announcement or by electronic communication or by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year. The period of thirty (30) days may be extended in respect of any year if approved by the members by ordinary resolution.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the provisions of the Companies Act and the Articles and, where applicable, the Listing Rules and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any

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trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such

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contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

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(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that in the case of a physical meeting, the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. Votes (whether on a show of hands or by way of poll) may be cast by such means, electronic or otherwise, as the Directors or the chairman of the meeting may determine.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the Listing Rules.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to

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convene such meeting, the requisitionist(s) himself/herself (themselves) may convene a physical meeting at only one location which will be the Principal Meeting Place (as defined below), and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify (a) the time and date of the meeting, (b) save for an electronic meeting, the place of the meeting and if there is more than one meeting location as determined by the board pursuant to the Articles, the principal place of the meeting (the “**Principal Meeting Place**”), (c) if the general meeting is to be a hybrid meeting or an electronic meeting, the notice shall include a statement to that effect and with details of the electronic facilities for attendance and participation by electronic means at the meeting or where such details will be made available by the Company prior to the meeting, and (d) particulars of resolutions to be considered at the meeting.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be given or issued by the following means:

- (aa) by serving it personally on the relevant person;
- (bb) by sending it through the post to such member’s registered address;
- (cc) by delivering or leaving it at such member’s registered address;
- (dd) by placing an advertisement in newspapers or other publication and where applicable, in accordance with the requirements of the Stock Exchange;
- (ee) by sending or transmitting it as an electronic communication to the relevant person at such electronic address as he may provide under the Articles, subject to the Company complying with the Cayman Islands

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laws and any other applicable laws, rules and regulations from time to time in force with regards to any requirements for the obtaining of consent (or deemed consent) from such person;

- (ff) by publishing it on the Company's website to which the relevant person may have access, subject to the Company complying with the Cayman Islands law and any other applicable laws, rules and regulations from time to time in force with regard to any requirements for the obtaining of consent (or deemed consent) from such person and/or for giving notification to any such person stating that the notice, document or publication is available on the Company's computer network website; or
- (gg) by sending or otherwise making it available to such person through such other means to the extent permitted by and in accordance with the Cayman Islands law and other applicable laws, rules and regulations.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers; and
 - (ee) the fixing of the remuneration of the directors and of the auditors.
- (v) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the Listing Rules, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

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The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

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(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction

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which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

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The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Act.

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A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or

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(d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

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- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 February 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act

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required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the

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future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands (the "ES Act") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display as referred to in the paragraph headed "Documents available on display" in Appendix V to this listing document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

- (a) Our Company was incorporated in the Cayman Islands as an exempted limited liability company under the Companies Act on 30 January 2019. Our Company has established our principal place of business in Hong Kong at Unit 1A, 6/F, Harbour Crystal Centre, 100 Granville Road, Tsim Sha Tsui, Hong Kong and has been registered as a non-Hong Kong company under Division 2 in Part 16 of the Companies Ordinance. Mr. Ho Ka Ki (何家淇先生) of Flat A, 12/F, Nam Hoi Mansion, Taikoo Shing, Quarry Bay, Hong Kong and Mr. Sieh Shing Kee (謝城基先生) of Flat A, 55/F, Tower 6, Manhattan Hill, No. 1 Po Lun Street, Kowloon, Hong Kong have been authorised to accept on behalf of our Company service of process and any notices required to be served on our Company.
- (b) As our Company was incorporated in the Cayman Islands, our corporate structure, the Memorandum and the Articles are subject to the Cayman Islands law. A summary of the relevant provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law is set out in Appendix III to this listing document.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of incorporation was HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of incorporation:

- (a) On 30 January 2019, our Company allotted and issued one Share, credited as fully paid at par, to Ms. Sharon Pierson, an independent third party, as the initial subscriber; and the subscriber Share was transferred to Good Hill for a consideration of HK\$0.01 on the same day;
- (b) On 15 March 2019, our Company allotted and issued 2,000 Shares, credited as fully paid at a premium, to Good Hill, as part of the consideration for the transfer of the entire issued share capital of A-City Workshop from Mr. Ho and Mr. Sieh as transferors to Kanic International as transferee;
- (c) On 25 November 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of additional 962,000,000 new Shares pursuant to a written resolution passed by our then sole Shareholder; and
- (d) On 13 December 2019, (i) a total of 30,000,000 Shares, credited as fully paid at a premium, were allotted and issued to the successful applicants under the public offer in the GEM Share Offer; (ii) a total of 70,000,000

Shares, credited as fully paid at a premium, were allotted and issued to selected professional, institutional and other investors under the placing in the GEM Share Offer; and (iii) upon the share premium account of our Company being credited as a result of the GEM Share Offer, a total of 299,997,999 Shares, credited as fully paid at par, were allotted and issued to Good Hill by way of capitalisation of a sum of HK\$2,999,979.99 standing to the credit of the share premium account of our Company.

As at the Latest Practicable Date, the authorised share capital of our Company was HK\$10,000,000 divided into 1,000,000,000 Shares. Assuming that no Shares will be allotted and issued prior to the Transfer of Listing, immediately following completion of the Transfer of Listing, the issued share capital of our Company will remain to be HK\$4,000,000 divided into 400,000,000 Shares fully paid or credited as fully paid, and 600,000,000 Shares will remain unissued.

3. Changes in the share capital of our subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this listing document.

Other than the alterations as described in the section headed "History and Corporate Structure" in this listing document, there has been no change in the share capital of our Company's subsidiaries within the two years immediately preceding the date of this listing document.

4. Annual General Meeting held on 6 May 2021

Pursuant to the resolutions of our Shareholders passed at the Annual General Meeting:

- (a) a general and unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and otherwise deal with additional Shares not exceeding 20% of the total number of Shares in issue as at the date of passing of the resolution approving such mandate, and by an additional number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares as set out in paragraph (b) below. Such mandate will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles, or any other applicable law of the Cayman Islands to be held; and (iii) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such authority given to our Directors; and

- (b) a general and unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares up to a maximum of 10% of the total number of Shares in issue as at the date of passing of the resolution approving such mandate. Such mandate will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles, or any other applicable law of the Cayman Islands to be held; and (iii) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such authority given to our Directors.

5. Repurchase of our own securities

This paragraph includes information relating to the repurchase of Shares as required by the Stock Exchange to be included in this listing document concerning such repurchase.

(a) *Relevant legal and regulatory requirements*

The Main Board Listing Rules permit our Shareholders to grant to our Directors the general mandate to repurchase Shares which are listed on the Stock Exchange. The general mandate to repurchase Shares is required to be given by way of an ordinary resolution passed by our Shareholders in general meeting.

(b) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 6 May 2021, our Directors were granted a general and unconditional mandate to repurchase Shares up to a maximum of 10% of the total number of Shares in issue as at the date of passing of the resolution approving such mandate on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for such purpose. Such mandate will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles, or any other applicable law of the Cayman Islands to be held; and (iii) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying such authority given to our Directors (the “**Relevant Period**”).

(c) *Source of funds*

Repurchase of Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles and the applicable laws of the Cayman Islands. We may not repurchase

Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the Main Board Listing Rules. Subject to the foregoing, we may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to the Companies Act, a repurchase may also be made out of capital.

(d) Reasons for repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Main Board Listing Rules, the Companies Act and other applicable laws of the Cayman Islands. On the basis of the current financial position of our Company as disclosed in this listing document and taking into account the current working capital position of our Company, our Directors believe that, if the general mandate to repurchase Shares were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this listing document. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Share capital

The exercise in full of the current general mandate to repurchase Shares, on the basis of 400,000,000 Shares in issue as at the date of passing of the resolution approving such mandate, could accordingly result in up to 40,000,000 Shares being repurchased by us during the Relevant Period.

(g) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the Main Board Listing Rules and the laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

None of the core connected persons of our Company has notified us that he or she or it has a present intention to sell his or her or its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contract


We have entered into the following contract (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this listing document which is or may be material:

The Supplemental Deed of Indemnity executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) regarding certain indemnities as more particularly set out in the paragraph headed "E. Other information – 1. Tax and other indemnity" in this appendix.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, our Group had registered the following trademark:

Trademark	Owner	Trademark number	Class	Place of registration	Expiry date
	A-City Workshop	304281859	37	Hong Kong	21 September 2027

(b) Domain name

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain name	Registrant	Registration date	Expiry date
www.maxicity.com.hk	A-City Workshop	8 January 2020	7 January 2023

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS

1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation

Immediately following completion of the Transfer of Listing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the interests and short positions of our Directors and chief executives of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Main Board, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Main Board, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Main Board Listing Rules to be notified to our Company and the Stock Exchange once the Shares are listed on the Main Board, will be as follows:

Director	Company concerned	Nature of interests	Class and number of securities held (Note 1)	Approximate percentage of interests in the company concerned
Mr. Ho	Our Company	Interest in controlled corporation/Interests held jointly with another person	300,000,000 ordinary Shares (L) (Note 2)	75.0
	Good Hill	Beneficial owner	2 ordinary shares	50.0
Mr. Sieh	Our Company	Interest in controlled corporation/Interests held jointly with another person	300,000,000 ordinary Shares (L) (Note 2)	75.0
	Good Hill	Beneficial owner	2 ordinary shares	50.0

Notes:

1. The letter “L” denotes the entity’s long position in the Shares.
2. These 300,000,000 Shares are held by Good Hill, which in turn is directly owned in equal share by each of Mr. Ho and Mr. Sieh. As such, each of Mr. Ho and Mr. Sieh is deemed under the SFO to be interested in the 300,000,000 Shares held by Good Hill.

2. Interests and/or short positions discloseable under the SFO and our Substantial Shareholders

Please refer to the section headed “Substantial Shareholders” in this listing document for details of the person (other than a Director or chief executive of our Company)/entities which will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

3. Particulars of service agreements and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the GEM Listing Date. Either party has the right to give not less than three months’ written notice to terminate the service agreement.

Each of our executive Directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of our Board. The aggregate annual salary of our executive Directors is HK\$2,400,000.

(b) Independent non-executive Directors

Three of our independent non-executive Directors, namely Mr. Tso Ping Cheong Brian, Mr. Kwong Che Sing and Mr. Ling Siu Tsang, have entered into appointment letters with our Company under which they have agreed to act as our independent non-executive Directors for an initial term of three years commencing from the GEM Listing Date. Ms. Chiao Siu Ling has entered into an appointment letter with our Company under which she has agreed to act as our independent non-executive Director for an initial term of three years from 1 July 2021. The aggregate annual fees payable to our independent non-executive Directors during the current financial year is HK\$525,000.

(c) Remuneration of our Directors

- (i) The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group in respect of the year ended 31 December 2020 is approximately HK\$2,886,000.

- (ii) The aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending 31 December 2021 under the arrangements in force at the date of this listing document are estimated to be approximately HK\$2,961,000.

D. SHARE OPTION SCHEME

The followings are the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our then sole Shareholder passed on 25 November 2019 and amended by a resolution of our Directors passed on 20 December 2021, which shall remain valid and effective following the Transfer of Listing and will be implemented in full compliance with Chapter 17 of the Main Board Listing Rules:

1. Conditions

- (a) The Share Option Scheme is conditional upon:
 - (i) the Listing Division granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit (as defined in paragraph 7(b)) to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
 - (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our then sole Shareholder.
- (b) The aforesaid conditions have been fulfilled.

2. Purpose, duration and administration

- (a) The purpose of the Share Option Scheme is to enable our Company to grant options to the Eligible Participants (as defined in paragraph 3(a) below) as incentives or rewards for their contribution to our Group.
- (b) The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall (save for the grant of options referred to in paragraph 3(b) which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.
- (c) Subject to paragraphs 1 and 13, the Share Option Scheme shall be valid and effective until the close of business of our Company on the date which falls 10 years (the “**Termination Date**”) after the date on which the Share Option Scheme is adopted upon fulfilment of the condition (the “**Adoption Date**”), after which period no further options may be issued but the provisions of the

Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

- (d) An Eligible Participant who accepts the offer in accordance with the terms of the Share Option Scheme or (where the context so permits and as referred to in paragraph 5(d)(i)) his personal representative (the “**Grantee**”) shall ensure that the acceptance of an offer, the holding and exercise of his option in accordance with the Share Option Scheme, the allotment and issue of Shares to him upon the exercise of his option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. Our Directors may, as a condition precedent of making an offer and allotting Shares upon an exercise of an option, require an Eligible Participant or a Grantee (as the case may be) to produce such evidence as it may reasonably require for such purpose.

3. Grant of options

- (a) Subject to paragraph 3(b), our Directors shall, in accordance with the provisions of the Share Option Scheme and the Main Board Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the Adoption Date to make an offer to any person belonging to the following classes of participants (the “**Eligible Participants**”) to subscribe, and no person other than the Eligible Participant named in such offer may subscribe, for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such price per Share at which a Grantee may subscribe for the Shares on the exercise of an option, as determined in accordance with paragraph 4 (the “**Subscription Price**”), as our Directors shall, subject to paragraph 4, determine:
- (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”) (the “**Eligible Employee**”);
 - (ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
 - (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
 - (iv) any customer of any member of our Group or any Invested Entity;

- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly-owned by one or more Eligible Participants.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

- (b) Without prejudice to paragraph 7(d) below, the making of an offer to any Director, chief executive of our Company or Substantial Shareholder, or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an option).
- (c) The eligibility of any of the Eligible Participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.
- (d) An offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as our Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares under the option and the "**Option Period**" (which means, in respect of any particular option, a period (which may not expire later than 10 years from the offer date of that option) to be determined and notified by our Directors to the Grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses under the provisions of paragraph 6; and (ii) 10 years from the offer date of that option) in respect of which the offer is made and further requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the

Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the offer date.

- (e) An offer shall state, in addition to the matters specified in paragraph 3(d), the following:
 - (i) the name, address and position of the Eligible Participant;
 - (ii) the number of Shares under the option in respect of which the offer is made and the Subscription Price for such Shares;
 - (iii) the Option Period in respect of which the Offer is made or, as the case may be, the Option Period in respect of separate parcels of Shares under the option comprised in the offer;
 - (iv) the last date by which the offer must be accepted (which may not be later than 21 days from the offer date);
 - (v) the procedure for acceptance;
 - (vi) the performance target(s) (if any) that must be attained by the Eligible Participant before any option can be exercised;
 - (vii) such other terms and conditions of the offer as may be imposed by our Directors as are not inconsistent with the Share Option Scheme; and
 - (viii) a statement requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme including, without limitation, the conditions specified in, inter alia, paragraphs 2(d) and 5(a).
- (f) An offer shall have been accepted by an Eligible Participant in respect of all Shares under the option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.
- (g) Any offer may be accepted by an Eligible Participant in respect of less than the number of Shares under the option which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such Eligible Participant and received by our Company together with a remittance in favour of our Company of HK\$1 by way of consideration for the grant

thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

- (h) Upon an offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 3(f) or 3(g), an option in respect of the number of Shares in respect of which the offer was so accepted will be deemed to have been granted by our Company to such Eligible Participant on the offer date. To the extent that the offer is not accepted within the time specified in the offer in the manner indicated in paragraph 3(f) or 3(g), it will be deemed to have been irrevocably declined.
- (i) The Option Period of an option may not end later than 10 years after the Offer Date of that Option.
- (j) Options will not be listed or dealt in on the Stock Exchange.
- (k) For so long as the Shares are listed on the Stock Exchange:
 - (i) our Company may not grant any options after inside information has come to our knowledge until we have announced the information. In particular, we may not grant any option during the period commencing one month immediately before the earlier of:
 - (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange under the Main Board Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Main Board Listing Rules); and
 - (bb) the deadline for our Company to announce our results for any year or half-year under the Main Board Listing Rules, or quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and ending on the date of the results announcement, no offer may be made; and
 - (ii) our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Main Board Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

4. Subscription Price

The Subscription Price in respect of any option shall, subject to any adjustments made pursuant to paragraph 8, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (c) the nominal value of the Share,

except that for the purpose of calculating the Subscription Price under paragraph 4(b) above for an option offered within five Business Days of the GEM Listing Date, the price at which the Shares are to be offered for subscription under the GEM Share Offer shall be used as the closing price for any Business Day falling within the period before the GEM Listing Date.

5. Exercise of options

- (a) An option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle our Company to cancel any option granted to such Grantee to the extent not already exercised.
- (b) Unless otherwise determined by our Directors and stated in the offer to a Grantee, a Grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.
- (c) Subject to, inter alia, paragraph 2(d) and the fulfilment of all terms and conditions set out in the offer, including the attainment of any performance targets stated therein (if any), an option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 5(d) and 5(e) by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the option remains unexercised is less than one board lot or where the option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a remittance for the full amount of the Subscription Price

for Shares in respect of which the notice is given. Within 21 days (seven days in the case of an exercise pursuant to paragraph 5(d)(iii)) after receipt of the notice and, where appropriate, receipt of the certificate of the auditors or the independent financial advisers pursuant to paragraph 8, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, in the event of an exercise of option by a personal representative pursuant to paragraph 5(d)(i), to the estate of the Grantee) fully paid and issue to the Grantee (or his estate in the event of an exercise by his personal representative as aforesaid) a share certificate for every board lot of Shares so allotted and issued and a share certificate for the balance (if any) of the Shares so allotted and issued which do not constitute a board lot.

- (d) Subject as hereinafter provided, an option may (and may only) be exercised by the Grantee at any time or times during the Option Period provided that:
- (i) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively;
 - (ii) if the Grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in paragraph 6(a)(iv) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within such period as our Directors may determine following the date of such cessation or termination or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;

- (iii) if a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all our Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the Grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in accordance with the provisions of paragraph 5(c) at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be;
- (iv) in the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 5(c) and our Company shall allot and issue to the Grantee the Shares in respect of which such Grantee has exercised his option not less than one day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up; and
- (v) if the Grantee is a company wholly-owned by one or more Eligible Participants:
 - (aa) the provisions of paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall apply to the Grantee and to the options granted to such Grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall occur with respect to the relevant Eligible Participant; and

- (bb) the options granted to the Grantee shall lapse and determine on the date the Grantee ceases to be wholly-owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.
- (e) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

6. Early termination of the Option Period

- (a) The Option Period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall lapse on the earliest of:
- (i) the expiry of the Option Period;
 - (ii) the expiry of any of the periods referred to in paragraph 5(d);
 - (iii) the date of commencement of the winding-up of our Company;
 - (iv) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the Grantee or our Group or the Invested Entity into disrepute);
 - (v) in respect of a Grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (aa) (1) such Grantee or his associate has committed any breach of any contract entered into between such Grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) such Grantee has committed any act of bankruptcy or has become insolvent

or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such Grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (bb) the Option shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above; and

(vi) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph 5(a) by the Grantee in respect of that or any other option.

- (b) A resolution of our Directors to the effect that the employment of a Grantee has been terminated on one or more of the grounds specified in paragraph 6(a)(iv) or that any event referred to in paragraph 6(a)(v)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.
- (c) Transfer of employment of a Grantee who is an Eligible Employee from one member of our Group to another member of our Group shall not be considered a cessation of employment. It shall not be considered a cessation of employment if a Grantee who is an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of our Group not to be a cessation of employment of the Grantee.

7. Maximum number of Shares available for subscription

- (a) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by our Group if the grant of such option will result in the limit referred to in this paragraph 7(a) being exceeded.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, i.e. 40,000,000 Shares (the "**General Scheme Limit**") provided that:
 - (i) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(ii), our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all

options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted; and

- (ii) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(i), our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 7(b)(i) to Eligible Participants specifically identified by our Company before such approval is sought.
- (c) Subject to paragraph 7(d), the total number of Shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a Grantee under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his close associates (or his associates if such Grantee is a connected person (as defined in the Main Board Listing Rules)) abstaining from voting.
- (d) Without prejudice to paragraph 3(b), where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting.

- (e) For the purpose of seeking the approval of our Shareholders under paragraphs 7(b), 7(c) and 7(d), our Company must send a circular to our Shareholders containing the information required under the Main Board Listing Rules and where the Main Board Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Main Board Listing Rules abstaining from voting.

8. Adjustments to the Subscription Price

- (a) In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:

- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
- (ii) the Subscription Price of any option; and/or
- (iii) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- (i) any such adjustment shall give the Grantee the same proportion of the issued share capital of our Company for which such Grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be allotted and issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to in this paragraph 8(a), other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Main Board Listing Rules.

- (b) If there has been any alteration in the capital structure of our Company as referred to in paragraph 8(a), our Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 5(c), inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made in accordance with the certificate of the auditors or the independent financial adviser obtained by our Company for such purpose or, if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the auditors or the independent financial adviser as soon as practicable thereafter to issue a certificate in that regard in accordance with paragraph 8(a).
- (c) In giving any certificate under this paragraph 8, the auditors or the independent financial adviser appointed under paragraph 8(a) shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

9. Cancellation of options

- (a) Subject to paragraph 5(a) and Chapter 17 of the Main Board Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant Grantee and the approval of our Directors.
- (b) Where our Company cancels any option granted to a Grantee but not exercised and issues new option(s) to the same Grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph 7(b)(i) or 7(b)(ii).

10. Share capital

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient authorised but unissued share capital of our Company to allot and issue the Shares on the exercise of any option.

11. Disputes

Any dispute arising in connection with the number of Shares the subject of an option, or any adjustment under paragraph 8(a) shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

12. Alteration of the Share Option Scheme

- (a) Subject to paragraphs 12(b) and 12(d), the Share Option Scheme may be altered in any respect by a resolution of our Directors except that:
- (i) the provisions of the Share Option Scheme as to the definitions of “Eligible Participants”, “Grantee”, “Option Period” and “Termination Date”; and
 - (ii) the provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Main Board Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of our Shareholders under the Articles for a variation of the rights attached to the Shares.

- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.
- (d) The terms of the Share Option Scheme and/or any options amended pursuant to this paragraph 12 must comply with the applicable requirements of the Main Board Listing Rules.

13. Termination

Our Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

14. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, being 40,000,000 Shares in total, on the Main Board by way of the Transfer of Listing. As at the date of this listing document, no option had been granted by our Company under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnity

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity and the Supplemental Deed of Indemnity to provide the following indemnities in favour of our Company (for itself and as trustee for each of its present subsidiaries).

Under the Deed of Indemnity and the Supplemental Deed of Indemnity, the Indemnifiers will jointly and severally agree, covenant and undertake to indemnify each member of our Group against:

- (a) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer, incur or be imposed by any regulatory authority or court in Hong Kong, or any applicable jurisdiction as a result of any violation or non-compliance by any member of our Group with any applicable law, rule or regulation on all matters subsisting prior to the date on which the conditions of the GEM Share Offer are fulfilled (the “**Effective Date**”);
- (b) taxation, together with all reasonable costs (including all legal costs), expenses or other liabilities which any member of our Group may incur in connection with (i) the investigation, assessment, contesting or settlement of any taxation claim under the Deed of Indemnity and the Supplemental Deed of Indemnity; (ii) any legal proceeding in relation to taxation claim in which any member of our Group claims under or in respect of the Deed of Indemnity and the Supplemental Deed of Indemnity and in which judgment is given for any member of our Group; or (iii) the enforcement of any such

settlement or judgment falling on any member of our Group resulting from or by reference to any income, profits or gains, transactions, events, acts, omissions, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company;

- (c) any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong to any member of our Group on or before the Effective Date;
- (d) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of directly or indirectly or in connection with any litigation, proceeding, claim, investigation, inquiry, enforcement proceeding or process by any governmental, administrative or regulatory body which (i) any member of our Group, their respective directors and/or representatives or any of them is/are involved; and/or (ii) arises due to some act or omission of, or transaction voluntarily effected by, any member of our Group or any of them (whether alone or in conjunction with some other act, omission or transaction) on or before the Effective Date;
- (e) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur arising from or in connection with the title defects of the properties owned by any member of our Group or any lease entered into by any member of our Group (either due to non-registration of the lease agreements or any other reasons) in any jurisdiction which were occurred on or before the Effective Date; and
- (f) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of or in connection with the implementation of the reorganisation in the preparation for the GEM Listing as described in the GEM Prospectus.

The Indemnifiers are under no liability under the Deed of Indemnity and the Supplemental Deed of Indemnity in respect of any taxation liability or claim mentioned in the paragraph immediately above:

- (a) to the extent that allowance, provision or reserve has been made for such taxation in the audited accounts of our Group for each of the four years ended 31 December 2020 and the six months ended 30 June 2021, respectively;

- (b) to the extent that such claim for taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any introduction of new legislation or any retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or to the extent that the taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;
- (c) for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business on or before the Effective Date;
- (d) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the consent of the Indemnifiers and otherwise than in the ordinary course of business on or before the Effective Date;
- (e) to the extent of any allowance or provision or reserve made for taxation in the audited accounts of our Group for each of the four years ended 31 December 2020 and the six months ended 30 June 2021, respectively, which is finally established to be an over-allowance or over-provision or an excessive reserve provided that the amount of any such allowance or provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter;
- (f) to the extent that such claim or taxation claim arises or is incurred as a consequence of a change in any accounting policy or practice adopted by any other member of our Group after the Effective Date; or
- (g) to the extent that any member of our Group shall have admitted liability in respect of the circumstances giving rise to the claim for taxation after the Effective Date.

Our Directors have been advised that no material liability for estate duty would be likely to fall upon our Company or any of our subsidiaries in the Cayman Islands, the BVI and Hong Kong.

2. Litigation or claims

Save as disclosed in the paragraphs headed “Business – Litigations and claims” in this listing document, as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance, and no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our business, results of operations or financial condition.

3. The Sponsor

The Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this listing document, on the Main Board by way of the Transfer of Listing.

Save for the advisory fees to be paid to Kingsway Capital Limited as the Sponsor in connection with the Transfer of Listing, neither Kingsway Capital Limited nor any of their respective associates has or may, as a result of the Transfer of Listing, have any interests in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Main Board Listing Rules.

The fee payable by our Company in respect of the services of Kingsway Capital Limited as the Sponsor in connection with the Transfer of Listing is HK\$2.5 million, and the Sponsor will be reimbursed for their expenses properly incurred in connection with the Transfer of Listing.

4. Preliminary expenses

The preliminary expenses incurred by our Company were approximately HK\$44,000 and were paid by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Main Board Listing Rules.

6. Qualification of experts

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Main Board Listing Rules) who have given their opinions or advice in this listing document are as follows:

Expert	Qualification
Kingsway Capital Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Mr. Chan Chung	Barrister-at-law in Hong Kong
Grant Thornton Hong Kong Limited	Certified Public Accountants
Frost & Sullivan Limited	Industry consultant

None of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

7. Consents of experts

Each of Kingsway Capital Limited, Conyers Dill & Pearman, Mr. Chan Chung, Grant Thornton Hong Kong Limited and Frost & Sullivan Limited has given and has not withdrawn their respective written consents to the issue of this listing document with the inclusion of their reports and/or letters and/or the references to their names included in this listing document in the form and context in which they are respectively included.

8. Miscellaneous

Save as disclosed in this listing document:

- (a) none of our Directors nor any of the parties listed in the paragraph headed “6. Qualification of experts” in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this listing document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this listing document which is significant in relation to the business of our Group;
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this listing document;
- (d) no capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option;
- (e) we have not issued or agreed to issue any founder or management or deferred Shares;
- (f) we have no outstanding debentures or convertible debt securities;
- (g) no commissions, discounts, brokerages or other special terms were granted within the two years immediately preceding the date of this listing document in connection with the issue or sale of any capital of any member of our Group, and none of our Directors nor any of the parties listed in the paragraph headed “6. Qualification of experts” in this appendix has received any such payment or benefit;
- (h) within the two years immediately preceding the date of this listing document, no commission (but not including commission to the underwriter of the GEM Share Offer) had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares in or debentures of our Company;
- (i) our Directors have confirmed that there has been no material adverse change in the financial or trading position of our Group since 30 June 2021;
- (j) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (k) in case of discrepancy, the English version of this listing document shall prevail over the Chinese version.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.maxicity.com.hk up to and including the date which is 14 days from the date of this listing document:

- (a) the Memorandum and the Articles;
- (b) the accountants' report of our Group from Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this listing document;
- (c) the annual reports of our Company for the two years ended 31 December 2020;
- (d) the report from Grant Thornton Hong Kong Limited relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this listing document;
- (e) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this listing document;
- (f) the legal opinion issued by the Legal Counsel in respect of certain aspects of Hong Kong laws and regulations applicable to our Group;
- (g) the market research report prepared by Frost & Sullivan;
- (h) the Companies Act;
- (i) the written consents referred to in the paragraph headed "E. Other Information – 7. Consents of experts" in Appendix IV to this listing document;
- (j) the material contract referred to in the paragraph headed "B. Further information about the business of our Group – 1. Summary of material contract" in Appendix IV to this listing document;
- (k) the service agreements and appointment letters referred to in the paragraph headed "C. Further information about our Directors and our Substantial Shareholders – 3. Particulars of service agreements and appointment letters" in Appendix IV to this listing document; and
- (l) the Share Option Scheme.

Maxicity Holdings Limited
豐城控股有限公司