
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 estimated 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 six public sector projects as main contractor from the Lands Department, the CEDD and the Highways Department. Among the six 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

	Four months ended 30 April					
	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	13	78,620	91.2	13	92,104	86.8
Private sector						
– As sub-contractor	6	7,602	8.8	7	12,336	11.6
– As main contractor	–	–	–	3	1,671	1.6
Sub-total	<u>6</u>	<u>7,602</u>	<u>8.8</u>	<u>10</u>	<u>14,007</u>	<u>13.2</u>
Total	<u>19</u>	<u>86,222</u>	<u>100.0</u>	<u>23</u>	<u>106,111</u>	<u>100.0</u>

As at the Latest Practicable Date, we had 20 projects on hand with an aggregate of approximately HK\$448.2 million yet to be recognised as revenue after the Track Record Period, among which, approximately HK\$185.7 million and HK\$262.5 million are expected to be recognised as revenue in the eight months ending 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.

BUSINESS

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 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” in this listing document.

BUSINESS

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.

BUSINESS

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 six 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.

BUSINESS

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.

BUSINESS

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\$2,267.3 million in 2015 to approximately HK\$2,527.8 million in 2019, at a CAGR of approximately 2.8%. 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\$2,306.8 million in 2020 to approximately HK\$2,839.5 million in 2025, at a CAGR of approximately 4.2%. Based on information publicly available from the CEDD, there were 31 ongoing public slope works projects initiated under the Landslip Prevention and Mitigation Programme as at 1 September 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).

BUSINESS

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 six public sector projects as main contractor with the Lands Department, the CEDD and the Highways Department. Among the six 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 O01 and O02 each has a contract value of above HK\$65.0 million. Each of Project O01 and O02 is a public sector project of which the project owner is a Government department. Project O01 and O02 were awarded by Customer C and Geotech Engineering Limited, respectively. The project sites of Project O01 involved various locations in the Hong Kong Island, Kowloon and New Territories, while the project sites of Project O02 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 O01 and O02 are expected to complete in or around December 2024 and May 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 of 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

BUSINESS

increase our business opportunities for public sector projects. For further details of Project O01 and O02, 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 [REDACTED]" 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

BUSINESS

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 June 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 and Customer F 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

BUSINESS

due performance and observance of our obligations 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 seven projects, with each performance bond ranging from the amount of HK\$0.6 million to HK\$4.0 million, representing approximately 6.8% 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 [REDACTED] 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 [REDACTED]

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 three 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 15 projects.

BUSINESS

Our Group has reserved a majority of the net [REDACTED] (i.e. approximately HK\$[REDACTED]) 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\$273.2 million for the twelve months ending 30 April 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 April 2022 from our projects on hand as at the Latest Practicable Date (i.e. approximately HK\$273.2 million), by definition, roughly equals the combined annual value of uncompleted works of our outstanding contracts for the the twelve months ending 30 April 2022. Accordingly, the current Specific Working Capital Requirement that we have to fulfil is approximately HK\$27.4 million (i.e. being 10% of HK\$273.2 million).

As at 31 July 2021 and without taking into account transactions which subsequently took place, our available resources for meeting the Specific Working Capital Requirement was approximately HK\$109.0 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\$816 million (i.e. being our available working capital of HK\$109.0 million minus our current Specific Working Capital Requirement of HK\$27.4 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.

BUSINESS

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 [REDACTED] 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 two 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 [REDACTED]

The final offer price for the GEM Listing was HK\$[REDACTED] per Share, and the actual net [REDACTED] from the GEM Listing were approximately HK\$[REDACTED], after deducting the [REDACTED] of approximately HK\$[REDACTED]. This amount was lower than the estimated net [REDACTED] of approximately HK\$[REDACTED], which was based on the mid-point offer price of HK\$[REDACTED] per Share, as disclosed in the GEM Prospectus. In light of the difference between the actual and estimated amount of the net [REDACTED], our Group has utilised the net [REDACTED] 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 adjusted use of our actual net [REDACTED] 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 [REDACTED]):

	Adjusted use of actual net [REDACTED]		Actual use of net [REDACTED] up to 30 June 2021	
	<i>HK\$ million</i>	%	<i>HK\$ million</i>	%
Strengthening our manpower by recruiting additional staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Acquisition of additional machinery	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increasing our reserve for financing the issue of performance bonds in favour of our customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Maintaining the specific working capital required for being an Approved Specialist Contractor	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

BUSINESS

REASONS FOR THE [REDACTED]

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 [REDACTED], 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 [REDACTED] 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 [REDACTED] will be beneficial to the future growth, financing flexibility and business development of our Group which will create a long-term value to the Shareholders.

As at the date of this listing document, the Board has no immediate plans to change the nature of the business of our Group following the [REDACTED]. The [REDACTED] 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

BUSINESS



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



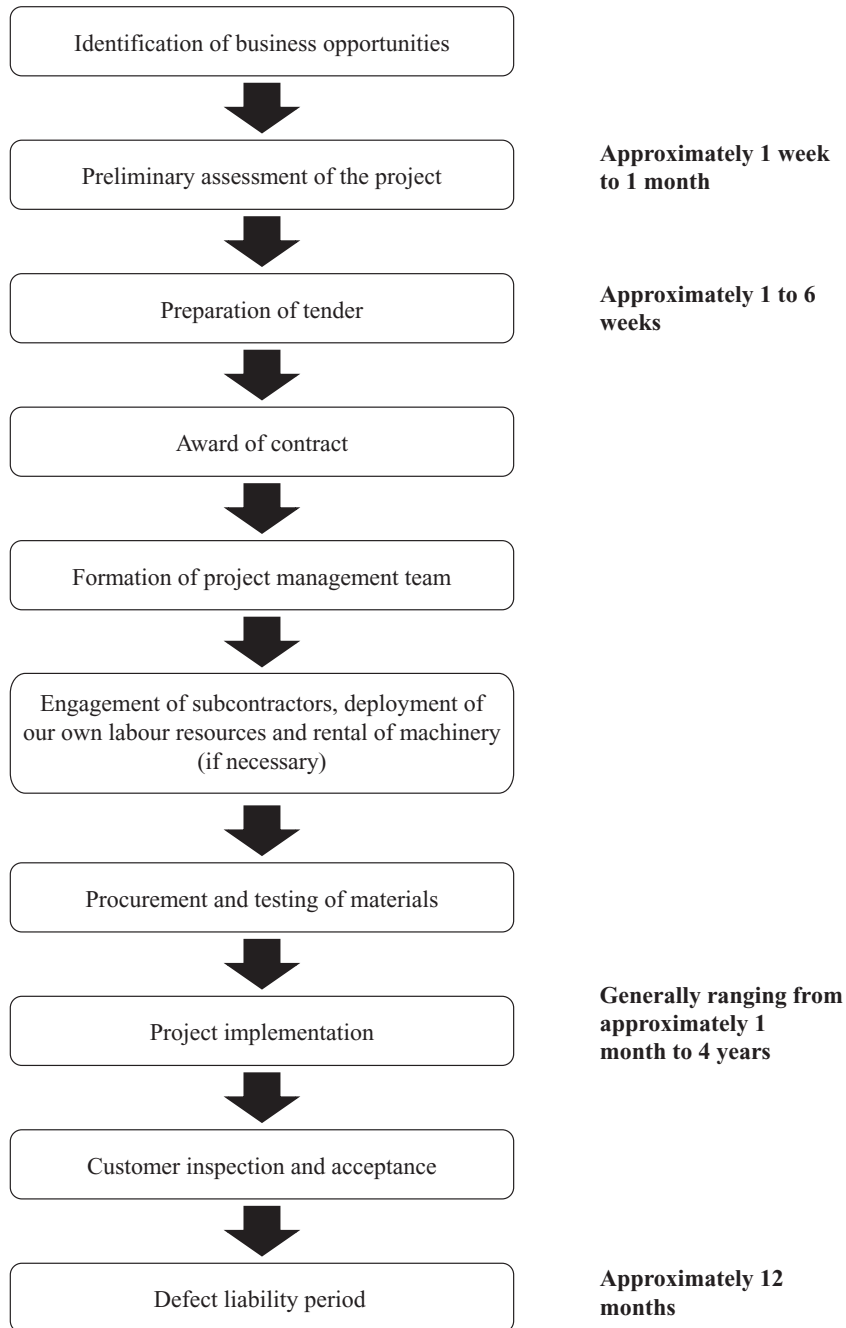
Landscape softworks and establishment works

BUSINESS

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.

BUSINESS

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.

BUSINESS

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.

BUSINESS

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	Four months ended 30 April 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 four months ended 30 April 2021, the results of two projects were 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.

BUSINESS

- (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 our 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\$6.3 million to our revenue in FY2020 and the four months ended 30 April 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.

BUSINESS

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.

BUSINESS

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.

BUSINESS

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 four months ended 30 April 2021, our revenue attributable to the variation orders amounted to nil, approximately HK\$17.5 million, HK\$3.7 million and nil, 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.

BUSINESS

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			Four months ended 30 April 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	106,111	19,465	18.3
Variation orders	—	—	—	17,457	5,219	29.9	3,733	1,436	38.5	—	—	—
Total	111,245	21,585	19.4	183,903	33,357	18.1	276,006	51,596	18.7	106,111	19,465	18.3

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.

BUSINESS

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>

BUSINESS

	Four months ended 30 April					
	2020			2021		
	No. of projects	Revenue <i>HK\$'000</i> (Unaudited)	% of total revenue	No. of projects	Revenue <i>HK\$'000</i>	% of total revenue
Public sector						
– As sub-contractor	13	78,620	91.2	13	92,104	86.8
Private sector						
– As sub-contractor	6	7,602	8.8	7	12,336	11.6
– As main contractor	–	–	–	3	1,671	1.6
Sub-total	<u>6</u>	<u>7,602</u>	<u>8.8</u>	<u>10</u>	<u>14,007</u>	<u>13.2</u>
Total	<u>19</u>	<u>86,222</u>	<u>100.0</u>	<u>23</u>	<u>106,111</u>	<u>100.0</u>

Number of projects by range of revenue recognised

For FY2018, FY2019, FY2020 and the four months ended 30 April 2021, there were 16, 18, 28 and 23 projects which contributed a total of approximately HK\$111.2 million, HK\$183.9 million, HK\$276.0 million and HK\$106.1 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	Four months ended 30 April 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	4
HK\$5.0 million to below HK\$10.0 million	2	2	1	3
HK\$1.0 million to below HK\$5.0 million	6	5	8	4
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>23</u>

BUSINESS

Top projects undertaken during the Track Record Period

The following tables set out the details of our top ten 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 (Note 2), Public 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)				Four months ended 30 April 2021 HK\$'000	Rank	Gross profit margin during the Track Record Period %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000						
							FY2018 HK\$'000	%	FY2019 HK\$'000	%					FY2020 HK\$'000	%	Rank			
#01	Customer C	98,000	Public	Northern regions	(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	(D), (V), (VI), (VII), (VIII)	Invitation for tender by customer	–	–	–	–	–	–	58,051	21.0	1	11,449	10.8	4	14.2	–
#03	Customer F	70,000	Public	Southern regions	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	–	–	–	–	–	–	54,851	19.9	2	17,398	16.4	3	18.6	Eight months ending 31 December 2021: 17,751
#04	Fong On Construction Limited	46,000	Public	Various locations in Hong Kong Island, Kowloon and New Territories	(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	(D), (II), (V), (VI), (VII), (VIII)	Invitation for tender by customer	–	–	–	–	–	–	38,358	13.9	3	25,902	24.4	1	18.3	Eight months ending 31 December 2021: 3,134
#06	Fong On Construction Limited	22,934	Private	The Peak	(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	(D), (V), (VI), (VII), (VIII)	Invitation for tender by customer	–	–	–	28,830	15.7	2	1,521	0.6	–	–	–	–	13.1	–

BUSINESS

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

Project No.	Customer (Note 1)	Estimated contract sum (Note 2) Public 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		Four months ended 30 April 2021		Gross profit margin during the Track after the 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	%		
#08	Customer F	20,000	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	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	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	15.4	-
#11	Tai Kam Construction Engineering Company Limited	78,000	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	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	8.3 ^(Note 7)	Eight months ending 31 December 2021: 330
#13	Geotech Engineering Limited	20,000	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	Eight months ending 31 December 2021: 22,310
#14	Fong On Construction Limited	15,481	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	13.9	Five months ending 31 December 2021: 5,101
#15	Fong On Construction Limited	12,380	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)	-

BUSINESS

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

Project No.	Customer (Note 1)	Estimated contract sum (Note 2) Public 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		Four months ended 30 April 2021		Gross profit margin during 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	Invitation for tender by customer	12,277	11.0	4	774	0.4	-	531	0.5	25.2	-	
#17	Customer D	16,292	Private	Tsing Yi	Commencement: March 2020 Completion: April 2021	Invitation for tender by customer	-	-	-	-	-	11,161	4.0	9	5,971	5.6	5
#18	Customer D	7,112	Public	Lian Tang	Commencement: July 2017 Completion: March 2020	Invitation for tender by customer	5,372	4.8	6	1,755	1.0	-	-	-	29.6	-	
#19	Fong On Construction Limited	6,863	Private	Pokfulam	Commencement: October 2018 Completion: October 2020	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	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	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	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	Invitation for tender by customer	1,885	1.7	10	-	-	-	-	-	27.3	-	

BUSINESS

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

Project No.	Customer (Note 1)	Estimated contract sum (Note 2), Public 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		Four months ended 30 April 2021		Gross profit margin during the Track after the Record Period %	Estimated revenue to be recognised after the Track Record Period (Note 5) HK\$'000		
							HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%			Rank	Rank
#24	Customer C	63,810	Public	Hung Shui Kiu	Commencement: February 2021 Completion: December 2024	VIII	Invitation for tender by customer	-	-	-	-	-	-	5,014	4.7	6	20.8	Eight months ending 31 December 2021: 14,544 FY2022 onwards: 44,252
#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	3.0	8	42.6 (Note 10)	-
#26	Customer F	20,000	Public	Various locations in Hong Kong Island and outlying islands	Commencement: April 2021 Completion: April 2022	I, V, VI, VII	Invitation for tender by customer	-	-	-	-	-	-	2,710	2.6	9	20.3	Eight months ending 31 December 2021: 13,379 FY2022 onwards: 3,911
#27	Customer C	6,773	Public	Various locations in Hong Kong	Commencement: December 2019 Completion: September 2021	I, V, VI, VII	Invitation for tender by customer	-	-	1,400	0.8	-	2,683	1.5	1.5	10	7.2 (Note 11)	Eight months ending 31 December 2021: 4,373

BUSINESS

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.

BUSINESS

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 #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.
11. As at the Latest Practicable Date, Project #27 has been substantially completed. Based on our unaudited management account, the gross profit margin of Project #27 from its commencement until the Latest Practicable Date is approximately 10%.

BUSINESS

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	Four months ended 30 April 2021	From 1 May 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	2
Less: Number of projects completed <i>(Note 3)</i>	(6)	(3)	(9)	(11)	(7)
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.

BUSINESS

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	Four months ended 30 April 2021	From 1 May 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	439,133
Total value of new projects and variation orders awarded ^(Note 1)	98,065	187,722	307,258	354,672	14,212
Less: Revenue recognised	<u>(111,245)</u>	<u>(183,903)</u>	<u>(276,006)</u>	<u>(106,111)</u>	<u>(102,745)</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>439,133</u></u>	<u><u>350,600</u></u>

Notes:

1. 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.
2. 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.

BUSINESS

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 ^(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) Eight months ending 31 December 2021 HK\$'000
						FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000	
001 ^(Note 6 and 9)	Various locations in Hong Kong	Customer C	Public	120,000	Commencement; June 2021 Completion: December 2024	-	-	-	15,450
002 ^(Note 7 and 9)	Various locations Kowloon and New Territories	Geotech Engineering Limited	Public	70,000	Commencement: May 2021 Completion: May 2022	-	-	-	42,030
003 ^(Note 8 and 9)	Various locations in Hong Kong Island	A construction contractor	Public	60,000	Commencement: October 2021 Completion: December 2024	-	-	-	4,500
#24	Hung Shui Kiu	Customer C	Public	63,810	Commencement: February 2021 Completion: December 2024	-	-	5,014	14,544
									100,550
									27,970
									55,500
									44,252

BUSINESS

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 Eight months ending 31 December 2021 HK\$, '000	FY2022 onwards HK\$, '000
						FY2018 HK\$, '000	FY2019 HK\$, '000	FY2020 HK\$, '000		
O04	Tuen Mun Yuen Long, North District, Tai Po and Shatin	Customer F	Public	22,000	Commencement: May 2021 Completion: March 2022	-	-	-	19,793	8,207
#12	Various locations in Hong Kong	Geotech Engineering Limited	Public	40,000	Commencement: September 2020 Completion: December 2021	-	15,935	21,755	22,310	-
#26	Hong Kong Island and outlying islands	Customer F	Public	20,000	Commencement: April 2021 Completion: April 2022	-	-	2,710	13,379	3,911
#03	Southern regions	Customer F	Public	70,000	Commencement: January 2020 Completion: September 2021	-	54,851	17,398	17,751	-
O05	Sandy Ridge	Geotech Engineering Limited	Public	12,500	Commencement: May 2021 Completion: March 2022	-	-	-	8,047	3,953
O06	Tsuen Wan	A temple	Private	9,500	Commencement: January 2021 Completion: June 2024	-	-	500	1,025	7,975

BUSINESS

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 Eight months ending 31 December 2021 HK\$'000		
						FY2018 HK\$'000	FY2019 HK\$'000	FY2020 HK\$'000			
007	Tseung Kwan O	Customer D	Public	8,400	Commencement: June 2021 Completion: October 2022	-	-	-	1,400	7,000	
008	Bowen road	Fong On Construction Limited	Private	7,417	Commencement: August 2021 Completion: January 2022	-	-	-	6,430	1,286	
009	The Peak	Fong On Construction Limited	Private	5,232	Commencement: September 2021 Completion: December 2021	-	-	-	5,232	-	
#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 (<i>Note 3</i>)						15,704	3,711	3,346	2,110	8,726	1,905
					Total:	15,704	13,746	78,621	49,862	185,718	262,509

BUSINESS

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 O01 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 O01 is within the range of 18% to 20% based on our estimation.
7. 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; and (v) construction of concrete maintenance stairway/access. The expected gross profit margin attributable to Project O02 is within the range of 17% to 19% based on our estimation.
8. 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 19% to 21% 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.
9. 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.

BUSINESS

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 four months ended 30 April 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.

BUSINESS

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

BUSINESS

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 four months ended 30 April 2021, the percentage of our total revenue attributable to our top customer amounted to approximately 31.1%, 34.7%, 34.7% and 31.8% respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 98.5%, 97.9%, 98.0% and 95.1%, respectively.

BUSINESS

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>

BUSINESS

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					<u>3,924</u>	<u>2.1</u>
Total revenue					<u><u>183,903</u></u>	<u><u>100.0</u></u>

BUSINESS

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>

BUSINESS

Four months ended 30 April 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	33,770	31.8
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	32,460	30.6
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	25,119	23.7
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	6.0
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	3.0
Top five customers combined					100,964	95.1
All other customers					<u>5,147</u>	<u>4.9</u>
Total revenue					<u><u>106,111</u></u>	<u><u>100.0</u></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.

BUSINESS

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 have one ongoing project that was 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 September 2021, there were 31 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, the 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. The 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. 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.

BUSINESS

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. 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 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 the latest annual report of Customer F Holdco, for the year ended 30 April 2020, its revenue amounted to approximately HK\$144.8 million.

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.

BUSINESS

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 the 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: July 2021	18,679	22.1
#16	59,540	Public	Nam Chung and Sai Kung	Commencement: June 2015 Completion: March 2021	13,582	25.2
#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.

BUSINESS

(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.

BUSINESS

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. Our gross profit margins attributable to Projects #11 and #16 during the Track Record Period were 22.1% and 25.2%, 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%);
- meanwhile, 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. Therefore, our Group was able to perform most of the works involved in some of these 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 the 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. In addition, as the work schedule of those 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. Besides, 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. Leveraging on our understanding and familiarity with the geological conditions of the sites areas, less site planning and surveying works were required for our site preparations, thereby reducing the associated costs incurred by us. 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 such track record would be

BUSINESS

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.

- 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.

Customer concentration

For FY2018, FY2019, FY2020 and the four months ended 30 April 2021, the percentage of our total revenue attributable to our top customer amounted to approximately 31.1%, 34.7%, 34.7% and 31.8%, respectively. The percentage of our total revenue attributable to our top five customers combined amounted to approximately 98.5%, 97.9%, 98.0% and 95.1%, 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 four months ended 30 April 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

BUSINESS

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 2021, we were awarded with a project with estimated contract sum of HK\$70.0 million (i.e. O03) by a new customer, being a construction contractor. This demonstrates our consistent effort in reducing our customer concentration and expanding our customer base.
- 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 three 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

BUSINESS

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 four months ended 30 April 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\$5.8 million, representing approximately 14.4%, 20.1%, 15.3% and 6.7% of our cost of services for the corresponding period, respectively.

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		Four months ended 30 April 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	0.5
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	0.9
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	32,460	30.6
Contra charge amounts and approximate % of our costs of services	2,606	2.9	2,538	1.7	1,850	0.8	2,669	3.1

BUSINESS

	FY2018		FY2019		FY2020		Four months ended 30 April 2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Geotech Engineering Limited								
Revenue derived and approximate % of our total revenue	5,380	4.8	45,007	24.5	95,703	34.7	33,770	31.8
Contra charge amounts and approximate % of our costs of services	4,893	5.5	21,963	14.6	27,422	12.2	800	0.9
Customer F								
Revenue derived and approximate % of our total revenue	-	-	18,043	9.8	78,018	28.3	25,119	23.7
Contra charge amounts and approximate % of our costs of services	-	-	2,541	1.7	4,292	1.9	2,035	2.3

Contra-charge arrangement with Geotech Engineering Limited

For FY2018, FY2019, FY2020 and the four months ended 30 April 2021, we incurred contra-charge of approximately HK\$4.9 million, HK\$22.0 million, HK\$27.4 million and HK\$0.8 million to Geotech Engineering Limited, representing approximately 90.9%, 48.8%, 28.7% and 2.4% 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

BUSINESS

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

- (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	14.2
#03	Customer F	18.6
#04	Fong On Construction Limited	25.8
#05	Customer C	18.3
#06	Fong On Construction Limited	37.1 <i>Note 1</i>
#07	Geotech Engineering Limited	13.1
#08	Customer F	11.4

BUSINESS

Project No.	Customer	Gross profit margin during the Track Record Period %
#09	Geotech Engineering Limited	9.6
#10	Customer F	15.4
#11	Tai Kam Construction Engineering Company Limited	22.1
#12	Geotech Engineering Limited	8.3
#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	25.2
#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	20.8
#26	Customer F	20.3
#27	Customer C	7.2

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

BUSINESS

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.

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.

BUSINESS

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.

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.

BUSINESS

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 four months ended 30 April			
	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	19,747	40.5	24,651	40.8
Materials	15,781	27.9	24,158	23.6	46,165	30.8	17,900	36.8	22,368	37.0
Other services ^(Note)	15,862	28.1	34,742	34.1	42,566	28.4	11,054	22.7	13,446	22.2
Total	56,463	100.0	102,148	100.0	149,894	100.0	48,701	100.0	60,465	100.0

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

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.

BUSINESS

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.

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.

BUSINESS

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 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.

BUSINESS

Top suppliers

For FY2018, FY2019, FY2020 and the four months ended 30 April 2021, the percentage of our total purchases from our top supplier amounted to approximately 8.7%, 21.5%, 26.0% and 39.2% respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 32.8%, 56.3%, 61.2% and 61.7% respectively. The following tables set out information of our top five suppliers for FY2018, FY2019, FY2020 and the four months ended 30 April 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)	4,893	8.7
2	Supplier B	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
3	Supplier C	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	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	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>

Note: 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.

BUSINESS

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)	21,963	21.5
2	Supplier F	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	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	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	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						<u>44,555</u>	<u>43.7</u>
Total purchases						<u><u>102,148</u></u>	<u><u>100.0</u></u>

Note: 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.

BUSINESS

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	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	(Note)	27,422	18.3
3	Supplier F	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	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	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2018	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>

Note: 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.

BUSINESS

Four months ended 30 April 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	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	23,728 <i>(Note)</i>	39.2
2	Supplier J	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2018	45 days; by cheque	3,627	6.0
3	Supplier C	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2013	45 days; by cheque	3,594	5.9
4	Supplier K	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2020	45 days; by cheque	3,217	5.3
5	Supplier I	A company engaged in, among others, construction works in Hong Kong	Mainly subcontracting of slope works	Since 2020	45 days; by cheque	3,176	5.3
Top five suppliers combined						37,342	61.7
All other suppliers						<u>23,123</u>	<u>38.3</u>
Total purchases						<u><u>60,465</u></u>	<u><u>100.0</u></u>

Note: During the four months ended 30 April 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\$11.6 million, HK\$9.1 million and HK\$3.0 million, respectively.

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.

BUSINESS

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 April 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 April 2021, there were more than 70 approved suppliers on our internal list of approved suppliers.

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;

BUSINESS

- (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.

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

BUSINESS

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.

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

BUSINESS

(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

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 April 2021 <i>No. of units</i>	As at the Latest Practicable Date <i>No. of units</i>
Air compressor	0-5 years	0-5 years	2	2	6	6	6
Crane truck	1-3 years	2-4 years	1	1	2	2	2
Excavator	4 years	1 year	1	1	1	1	1
Generator	1 year	4 years	–	2	2	2	2
Motor vehicle	0-4 years	0-3 years	12	14	16	16	16
Total			16	20	27	27	27

BUSINESS

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 four months ended 30 April 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\$4.1 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.

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 four months ended 30 April 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.

BUSINESS

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 four months ended 30 April 2021, our total insurance premiums incurred were approximately HK\$0.1 million, HK\$1.1 million, HK\$1.5 million and HK\$0.7 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 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 April 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>

BUSINESS

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.

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\$27.1 million for FY2018, FY2019, FY2020 and the four months ended 30 April 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.

BUSINESS

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/ organization	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

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.

BUSINESS

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 four months ended 30 April 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.

BUSINESS

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 sanitizer) 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;
- 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.

BUSINESS

Impact of the outbreak of COVID-19 on our operations

Based on information available as at the Latest Practicable Date, 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 six tenders which were still undergoing tender selection process and pending tender result. In respect of these six 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; and
- 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

BUSINESS

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\$350.6 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;
- notwithstanding the outbreak of COVID-19 in 2020, our Group was able to implement our business expansion plans and utilise the net [REDACTED] 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); and

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.

BUSINESS

- in the event that the outbreak of COVID-19 deteriorates and in the worst case scenario where our business operation has to be completely suspended, our executive Directors believe that we will have sufficient working capital to meet our cash requirements for at least 12 months based on our cashflow analysis, in particular taking into consideration factors and business assumptions such as (i) our cash and bank balances of approximately HK\$109.0 million as at 31 July 2021; (ii) we will continue receive our trade and other receivables of approximately HK\$15.1 million as at 31 July 2021 based on historical settlement pattern; (iii) we will continue receive certification and settlement from our customers on our contract assets (excluding retention receivables) of approximately HK\$34.4 million as at 31 July 2021; (iv) we will continue paying our staff and other fixed costs during the suspension of work; (v) we will settle our trade and other payables of approximately HK\$9.9 million as at 31 July 2021 based on historical settlement pattern; and (vi) we will settle our current tax liabilities of approximately HK\$6.7 million as at 31 July 2021.

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.

BUSINESS

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;

BUSINESS

- 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.

BUSINESS

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 April 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.

BUSINESS

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 four months ended 30 April 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 April 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 Listing Rules to include any valuation report in this listing document.

BUSINESS

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.

Ongoing claim in relation to workplace injury

As at the Latest Practicable Date, A-City Workshop was involved in the following ongoing claim in relation to workplace injury:

Nature of the claim	Particulars of the claim	Covered by insurance
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 with the amount insured of HK\$200 million per event

BUSINESS

As advised by the Legal Counsel, the aforesaid claims were covered by insurance policy taken out by the relevant main contractor. As such, our executive Directors consider that the aforesaid claim will not lead to any material adverse impact on our operation and financial performance.

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

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.

BUSINESS

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 14 November 2018; (b) the potential common law personal injury claim for the accident on 30 January 2019; (c) the potential common law personal injury claim for the accident on 11 April 2019; (d) the potential common law personal injury claim for the accident on 28 March 2020; and (e) 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	–	1
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.

BUSINESS

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	Four months ended 30 April 2021
<i>Use of motor vehicles</i>				
- Nitrogen oxides	gram	96,648.25	149,653.12	59,536.67
- Sulphur oxides	gram	973.20	1,037.26	269.11
- Respiratory suspended particles	gram	8,383.25	13,552.68	4,433.09
<i>Direct GHG emissions (Scope 1)</i>				
- Carbon dioxide	kg	156,410.97	166,919.49	43,328.22
- Methane	kg	309.22	317.67	79.13
- Nitrous oxide	kg	20,519.18	21,204.15	5,336.51
<i>Indirect GHG emissions (Scope 2)</i>				
- Carbon dioxide	kg	20,978.45	139,294.89	37,879.74
- GHG emission intensity	kg/ construction contract	11,012.10	11,301.23	3,766.24

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	Four months ended 30 April 2021
Inert construction materials	tonnes	4,794.05	8,113.19	1,678.70
Inert construction materials usage intensity	tonnes/ construction contract <i>(Note)</i>	684.86	737.56	279.78
Paper	tonnes	1.93	1.50	0.24
Paper usage intensity	tonnes/ construction contract	0.11	0.05	0.01

Note: Construction contracts include works that would generate inert construction materials.

BUSINESS

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	Four months ended 30 April 2021
Electricity usage	kWh	100,443.85	221,103.00	60,126.50
Electricity usage intensity	kWh/office	33,481.28	44,220.00	15,031.64

(Note)

Note: Office includes our head office and construction site offices.

BUSINESS

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	Four months ended 30 April 2021
Water consumption	cu.m	14,743.18	27,501.00	9,128.00
Water consumption intensity	cu.m/office <i>(Note)</i>	4,914.39	5,500.20	1,825.60

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.

BUSINESS

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.

BUSINESS

Corporate governance matters

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the 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. The 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;

BUSINESS

- (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 the 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;
- (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 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

BUSINESS

- 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 the Shareholders of our Group 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".

BUSINESS

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.

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 April 2021, we recorded trade receivables of approximately HK\$4.0 million, HK\$10.6 million, HK\$18.7 million and HK\$14.3 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

BUSINESS

- 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.

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.

BUSINESS

(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.