Post Hearing Information Pack of

Kwong Luen Engineering Holdings Limited
廣聯工程控股有限公司

(incorporated in the Cayman Islands with limited liability)

(the "**Company**")

WARNING

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Kwong Luen Engineering Holdings Limited
廣聯工程控股有限公司

(incorporated in the Cayman Islands with limited liability)

[REDACTED]

Total number of [REDACTED]	**:**	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to re-allocation)**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to re-allocation and the [REDACTED])**
[REDACTED]	**:**	**Not more than HK$[REDACTED] per [REDACTED] and expected to be not less than HK$[REDACTED] per [REDACTED], plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
[REDACTED]	**:**	**[REDACTED]**

Sponsor

Grande Capital Limited
均富融資有限公司

[[REDACTED] and [REDACTED]]
[REDACTED]

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The **[REDACTED]** is expected to be determined by agreement between our Company and the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**) on the **[REDACTED]** or such later date as may be agreed between our Company and the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**) but in any event no later than **[REDACTED]**. The **[REDACTED]** will be not more than HK$**[REDACTED]** per **[REDACTED]** and is expected to be not less than HK$**[REDACTED]** per **[REDACTED]**, unless otherwise announced.

The **[REDACTED]** may, with our Company's consent, reduce the number of **[REDACTED]** under the **[REDACTED]** and/or the **[REDACTED]** stated in this document at any time prior to the morning of the last day for lodging applications under the **[REDACTED]**. In such a case, a notice of reduction in the number of **[REDACTED]** and/or the **[REDACTED]** will be published on the website of the Stock Exchange at **www.hkexnews.hk** and website of our Company at **www.kwong-luen.com.hk** not later than the morning of the last day for lodging applications under the **[REDACTED]**. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and Conditions of the **[REDACTED]**" and "How to Apply for **[REDACTED]**".

If, for any reason, the **[REDACTED]** is not agreed between the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**) and our Company on or before **[REDACTED]**, the **[REDACTED]** will not become unconditional and will lapse immediately.

Prior to making an **[REDACTED]** decision, prospective **[REDACTED]** should consider carefully all the information set out in this document, including risk factors set out in the section headed "Risk Factors". Pursuant to the **[REDACTED]**, the **[REDACTED]** has the right in certain circumstances to terminate the obligations of the **[REDACTED]** at any time prior to 8:00 a.m. (Hong Kong time) on the **[REDACTED]**. Further details of such circumstances are set out in the paragraph headed "**[REDACTED]** – **[REDACTED]** arrangements and expenses – The **[REDACTED]** – Grounds for Termination".

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

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

CONTENTS

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

BUSINESS OVERVIEW

We are a foundation works contractor in Hong Kong. We commenced our business in 1995 and have since undertaken foundation works in the role of subcontractor through Kwong Luen Engineering, our principal operating subsidiary. According to the F&S Report, we were ranked as the fourth largest (in terms of revenue) foundation works subcontractor in Hong Kong in 2019, and accounted for approximately 1.7% market share of the foundation industry*(Note)*. During the Track Record Period, the foundation works undertaken by us mainly comprised ELS and other associated works including pile cap construction, underground drainage works and site formation works.

Note: The ranking is computed based on public information and does not include foundation works subcontractors that were not listed on the Stock Exchange due to lack of public information.

Projects Undertaken During the Track Record Period

Our foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, we have established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. During the Track Record Period, the majority of our revenue was derived from foundation works in residential developments.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period by the type of development involved:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*
Residential	15	133,854	78.6	10.0	18	222,527	81.5	14.5	23	345,615	85.4	13.5
Non-residential *(Note 1)*	2	36,371	21.4	16.9	3	50,389	18.5	2.1	10	59,210	14.6	9.5
Total	17	170,225	100.0	11.4	21*(Note 2)*	272,916	100.0	12.2	33*(Note 3)*	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*
Residential	16	71,240	95.1	12.8	17	163,675	74.0	12.7
Non-residential *(Note 1)*	6	3,678	4.9	10.8	11	57,560	26.0	13.3
Total	22	74,918	100.0	12.7	28*(Note 4)*	221,235	100.0	12.9

Notes:

1. Non-residential developments such as commercial and infrastructure developments.

2. Out of the 21 projects which contributed revenue to FY2018/19, 10 projects also contributed revenue to FY2017/18.

3. Out of the 33 projects which contributed revenue to FY2019/20, 6 and 16 projects also contributed revenue to FY2017/18 and FY2018/19, respectively.

4. Out of the 28 projects which contributed revenue to the five months ended 31 August 2020, 2, 6 and 20 projects also contributed revenue to FY2017/18, FY2018/19 and FY2019/20, respectively.

Our Group's gross profit margin for non-residential development projects was approximately 16.9% for FY2017/18 which was mainly attributable to the substantial amount of foundation works we had performed for a commercial development project for Customer A, namely Project No. #07, which accounted for the majority of our revenue derived from non-residential development projects in FY2017/18. Leveraging our long-established and stable business relationship with Customer A, we were able to factor in a profit margin, which was comparable to our overall gross profit margin attributable to Customer A of approximately 16.3% for FY2017/18, for Project No. #07. Our Group's gross profit margin for non-residential development projects decreased from 16.9% for FY2017/18 to 2.1% for FY2018/19, which was mainly attributable to the substantial amount of foundation works we had performed for Project No. #09 in FY2018/19. Taking into consideration (i) Project No. #09 being our first potential non-residential development project obtained from Customer B, (ii) the prospect of strengthening our business relationship with Customer B, we had factored in a relatively low profit margin in determining the tender price for Project No. #09, resulting in our lower gross profit margin attributable to non-residential development project in FY2018/19. For further details on our relationship with Customer B, please refer to the section headed "Business – Our customers – Top customers who were also our suppliers (and subcontractors)" in this document.

Our Group's gross profit margin for non-residential development projects increased from approximately 2.1% for FY2018/19 to approximately 9.5% for FY2019/20 which was mainly attributable to (i) the substantial amount of foundation works we had performed for a commercial development project for Customer A, namely Project No. #08, which accounted for approximately 64.1% of our revenue derived from non-residential development projects in FY2019/20. In respect of Project No. #08, we had factored in a relatively higher profit margin and our gross profit margin attributable to Project No. #08 was approximately 10% for FY2019/20; and (ii) was partially offset by the relatively lower gross profit margin we had factored in for one and two projects we undertook for Customer J and Shui Wing Group, respectively, in FY2019/20. Our gross profit margins attributable to the aforesaid projects with Customer J and Shui Wing Group were approximately 8% on average for FY2019/20. Taking into consideration Customer J and Shui Wing Group was our new customer for 2020 and 2019, respectively and the prospect of strengthening our business relationship with them, we had factored in a relatively lower gross profit margin for projects awarded by them.

Our Group's gross profit margin for non-residential development projects increased from approximately 9.5% for FY2019/20 to approximately 13.3% for the five months ended 31 August 2020, which was mainly attributable to the substantial amount of foundation works we had performed for two infrastructure development projects for Lik Shing Engineering Company Limited, namely Project No. O13 and Project No. O14. Given that we had commenced our business relationship with Lik Shing Engineering Company Limited since 2018 and demonstrated to them our ability to fulfil their quality standards, requirements and specifications in previous projects, we had started to factor in a higher profit margin for projects awarded by Lik Shing Engineering Company Limited as compared to the previous projects we had undertaken for them, which was in line with the increase in our overall gross profit margin attributable to Lik Shing Engineering Company Limited from approximately 7.6% for FY2019/20 to approximately 11.9% for the five months ended 31 August 2020.

We were engaged in both private and public sector projects in Hong Kong. During the Track Record Period, a substantial portion of our revenue was derived from foundation works in private sector projects. The project owners of our private sector projects were generally property developers and utilities companies, and our customers were those main contractors or subcontractors employed under such projects. In respect of public sector projects, our customers were generally subcontractors employed under those projects initiated by the Government, such as Housing Authority and CEDD.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period for private and public sector projects:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*
Private sector	17	170,225	100.0	11.4	20	262,798	96.3	12.3	27	388,146	95.9	13.1
Public sector	–	–	–	–	1	10,118	3.7	7.7	6	16,679	4.1	7.9
Total	17	170,225	100.0	11.4	21	272,916	100.0	12.2	33	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*
Private sector	20	73,190	97.7	12.9	20	185,214	83.7	13.2
Public sector	2	1,728	2.3	6.1	8	36,021	16.3	11.6
Total	22	74,918	100.0	12.7	28	221,235	100.0	12.9

Our Group's gross profit margin for public sector projects increased from 7.9% for FY2019/20 to 11.6% for the five months ended 31 August 2020, which was mainly attributable to the substantial amount of foundation works we had performed for two infrastructure development projects for Lik Shing Engineering Company Limited, namely Project No. O13 and Project No. O14. Given that we had commenced our business relationship with Lik Shing Engineering Company Limited since 2018 and demonstrated to them our ability to fulfil their quality standards, requirements and specifications in previous projects, we had started to factor in a higher profit margin for projects awarded by Lik Shing Engineering Company Limited as compared to the previous projects we had undertaken for them, which was in line with the increase in our overall gross profit margin attributable to Lik Shing Engineering Company Limited from approximately 7.6% for FY2019/20 to approximately 11.9% for the five months ended 31 August 2020.

Our Group remains open to undertaking projects from different sectors and types of development. Our pricing strategies for (i) public and private sector projects; and (ii) residential and non-residential projects are largely similar. In determining the gross profit margin of a project during tender submission, our executive Directors generally take into consideration, amongst others factors, (i) the size and duration of the project; (ii) years of business relationship with the customer; (iii) credit history and financial track record of the customer; and (iv) prospect of obtaining future contracts from the customer. For further details on our pricing strategy, please refer to the paragraph headed "Business – Pricing strategy" in this document.

During the Track Record Period, most of our residential projects undertaken were initiated by Developer I and we had participated in such projects as a subcontractor of Customer A. Our Group's gross profit margin attributable to Customer A was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period. For further details, please refer to the paragraph headed "Business – Our customers – Further information on our top customers – Customer A and Sanfield" in this document.

Meanwhile, the non-residential projects undertaken by us during the Track Record Period were obtained from a larger customer base, mainly including Customer A, Customer B, Customer J, Shui Wing Group and Lik Shing Engineering Company Limited. The property owners of these non-residential projects include the Government, such as CEDD, as well as different property developers in Hong Kong. Given the difference in (i) the customer base and the associated project owners of our residential and non-residential projects; (ii) length of our working relationships with such customers and the associated project owners; and (iii) project requirements and quality standards imposed by such customers and the associated project owners, there was a larger fluctuation in our gross profit margin attributable to non-residential projects as compared to our residential projects.

Similarly, since our private sector projects undertaken during the Track Record Period were mainly originated from Developer I and obtained by us from Customer A, our gross profit margin attributable to private sector projects was relatively higher as compared to public sector projects during the same periods.

Our gross profit margin was comparatively higher than the other top five leading foundation works subcontractors

Our Group's gross profit margin was comparatively higher than the other top five leading foundation works subcontractors in Hong Kong by revenue in 2019 which was primarily attributable to (i) the different composition of customer base and the associated project owners of our Group as compared to the other leading foundation works subcontractors. Particularly, we were able to attain a relatively higher gross profit margin from Customer A's projects, which were all initiated by Developer I; (ii) the scale of our machinery fleet being larger than three of the other leading foundation works subcontractors; and (iii) that we had not encountered any material cost overrun in our projects during the Track Record Period. By comparison, our executive Directors noted that some of the other leading foundation works subcontractors had encountered unexpected complexity and delay in projects according to the annual reports of their most recent financial year, which had adversely affected their gross profit margins. For details of the reasons, please refer to the paragraph headed "Business – Projects undertaken during the Track Record Period – Our Group's higher gross profit margin than the other top five leading foundation works subcontractors in Hong Kong by revenue in 2019" in this document.

Tender success rate

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:

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2020
Number of projects for which we have submitted tenders	35	57	102	62
Number of projects awarded *(Note)*	6	11	15	9
Success rate *(%)* *(Note)*	17.1	19.3	14.7	14.5

Note: 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.

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:

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2020	From 1 September 2020 to the Latest Practicable Date
Opening number of projects *(Note 1)*	13	12	18	23	33
Add: Number of new projects awarded to us *(Note 2)*	6	11	15	10	1
– Number of new project(s) awarded to us in respect of tenders submitted in the preceding financial year/period	1	1	1	1	–
– Number of new project(s) awarded to us in respect of tenders submitted in the relevant financial year/period indicated	5	10	14	9	1
Less: Number of projects completed *(Note 3)*	(7)	(5)	(10)	–	(18)
Ending number of projects *(Note 4)*	12	18	23	33	16

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 or substantially 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.

As at 31 March 2018, 2019, 2020, 31 August 2020 and the Latest Practicable Date, we had a total of 12, 18, 23, 33 and 16 projects in our backlog (including projects that have been awarded to us but not yet commenced) with revenue derived or expected to be derived from such projects as follows:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**	**As at the Latest Practicable Date**
Number of projects in our backlog	12	18	23	33	16

	FY2017/18	**FY2018/19**	**FY2019/20**	**Five months ended 31 August 2020**	**From 1 September 2020 to the Latest Practicable Date**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening value of backlog	205,823	249,886	263,489	288,738	575,246
Total value of new projects and variation orders awarded *(Note 1)*	214,288	286,519	430,074	507,743	84,398
Less: Revenue recognised	(170,225)	(272,916)	(404,825)	(221,235)	(191,577)
Ending value of backlog *(Note 2)*	249,886	263,489	288,738	575,246	468,067

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.

Our customers

During the Track Record Period, our customers mainly included construction contractors or foundation works contractors in Hong Kong. The number of customers with revenue contribution to our Group was six, eight, 13 and nine for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total revenue attributable to our top customer amounted to approximately 66.2%, 68.6%, 54.8% and 37.9% respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 99.2%, 96.2% and 95.2%, respectively.

During the Track Record Period, a significant portion of our revenue was derived from Customer A, which has been one of our top five customers during the Track Record Period and our largest customer for FY2017/18, FY2018/19 and FY2019/20. During the Track Record Period, we were engaged as a subcontractor by Customer A in a number of private sector projects initiated by Developer I. Customer A obtained these foundation projects from the main contractors, including Sanfield and its associated companies (being group members of Developer I), and engaged us as a subcontractor. Customer A was mainly responsible for supervision and administration of the projects, and outsourced the site works involved. Customer A contributed revenue of approximately HK$112.7 million, HK$187.3 million, HK$221.8 million and HK$78.8 million, representing approximately 66.2%, 68.6%, 54.8% and 35.6% of our total revenue for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively.

Our gross profit margin attributable to Customer A was generally higher than our other customers

Our Group's gross profit margin attributable to Customer A was approximately 16.3%, 16.5%, 17.0% and 19.7% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively, which was comparatively higher than the gross profit margin attributable to our other customers (including Sanfield) during the Track Record Period. As advised by F&S, Developer I is one of the leading property developers in Hong Kong and is renowned for its high-quality property developments and stringent requirements of subcontractor selection. Developer I, together with Sanfield, is reputable for its flexibility and capability in coming up with foundation design plan that suits the requirements and site conditions of design and build projects. Having considered that (i) Developer I pursues a high standard on different aspects of project quality; (ii) Customer A is focused on the role of project management supervision; and (iii) we have worked with Customer A for a long period of time and had a thorough understanding on the requirements of Customer A as well as the quality standards of Developer I, we were able to attain a relatively higher gross profit margin from Customer A's projects, which were all initiated by Developer I.

Our Group has been admitted as one of the approved subcontractors of Sanfield since August 2018. Subsequent to our admission as one of the approved subcontractors of Sanfield in 2018, our Group obtained three projects initiated by Developer I directly from Sanfield in FY2018/19, which were comparatively smaller in scale, with average estimated contract sum of approximately HK$2.5 million and a profit margin of approximately 5% on average. Subsequent to FY2018/19 and up to the Latest Practicable Date, our Group was awarded a total of four projects initiated by Developer I directly by Sanfield, which were comparatively larger in scale, with average estimated contract sum of approximately HK$85.8 million with an expected profit margin within the range of 12% to 14%. Therefore, our historical financial information may not be indicative of our future performance and there is no assurance that we will be able to secure projects with gross profit margin comparable to those projects awarded to us by Customer A in the future.

Top customers who were also our suppliers (and subcontractors)

Several of our top customers were also our suppliers and/or subcontractors during the Track Record Period. When we undertake projects for our customers, there may be occasions where our customers supply certain materials and other services to us under the same projects and subsequently deduct such amounts in the payment certificate issued to us. Such procurement from our customers mainly included purchase of materials such as concrete and metal parts, arrangement of waste disposal services, rental of machinery and supply of fuel. In respect of the purchase of our Group, there were no material differences in the pricing terms charged by our customers who were also our suppliers and/or subcontractors and that charged by our other suppliers/subcontractors. For further details, please refer to the section headed "Business – Our customers – Top customers who were also our suppliers (and subcontractors)" in this document.

Our suppliers and subcontractors

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; (iii) suppliers of waste disposal services; and (iv) suppliers of other miscellaneous items such as transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery as well as testing services. The following table sets forth a breakdown of our total purchase during the Track Record Period by type of suppliers:

	FY2017/18		FY2018/19		FY2019/20		Five months ended 31 August 2019		2020	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Subcontracting fees	55,506	44.2	102,239	50.6	130,720	43.2	31,871	69.4	49,905	29.5
Materials	23,848	19.0	52,651	26.1	114,193	37.8	8,941	19.5	74,235	43.9
Waste disposal services	40,849	32.5	40,726	20.2	45,062	14.9	2,965	6.5	37,049	21.9
Others *(Note)*	5,350	4.3	6,227	3.1	12,360	4.1	2,177	4.6	7,987	4.7
Total	125,553	100.0	201,843	100.0	302,335	100.0	45,954	100.0	169,176	100.0

Note: These miscellaneous items mainly included transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery and testing services.

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total purchases (excluding subcontracting fees) attributable to our top supplier amounted to approximately 39.4%, 49.1%, 22.6% and 39.5% respectively, while the percentage of our total purchases (excluding subcontracting fees) attributable to our top five suppliers combined amounted to approximately 84.8%, 87.0%, 82.8% and 80.2% respectively. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total subcontracting fees attributable to our top subcontractor amounted to approximately 41.1%, 34.3%, 54.5% and 28.8% respectively, while the percentage of our total subcontracting fees attributable to our top five subcontractors combined amounted to approximately 91.5%, 86.5%, 89.0% and 84.2% respectively.

Our machinery fleet

We have our own machinery including excavators, loaders, crawler crane and bending machines for performing different types of foundation works. As at the Latest Practicable Date, we owned 97 sets of excavators, 11 sets of loaders, one set of crawler crane and two sets of bending machines. For further details, please refer to the section headed "Business – Machinery and motor vehicles" in this document.

We maintain an internal record of the usage of our machinery including the duration and the project for which the machinery is occupied. Based on such record, the following table sets out the utilisation rate of our machinery during the Track Record Period. The utilisation rate of our machinery is calculated as the total number of days for which our machinery were occupied at our work sites in a financial year/period, divided by the aggregate number of days that our machinery were occupied or left idle in the corresponding financial year/period:

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2020
	(%)	*(%)*	*(%)*	*(%)*
Utilisation rate				
Excavator	86.3	91.0	91.2	90.9
Loader	91.0	94.1	94.8	94.1
Crawler crane	–	98.2	98.3	97.6
Bending machine	–	62.0*(Note)*	84.2	98.4

Note: Our Group acquired our first bending machine in FY2018/19. Prior to the bending machine being put into operation, our Group had spent time on its installation, adjustment and testing as well as arranging trainings for our staff in order to familiarise them with the safe operation of such machine, resulting in its relatively lower utilisation rate of approximately 62.0% in FY2018/19.

Our major licence and qualifications

For private sector foundation works projects, as long as the main contractors are registered on the list of register of general building contractors and/or the list of register of specialist contractors with the Buildings Department under the appropriate category(ies) and are so appointed, there is no legal requirement for the subcontractors to possess the same registrations.

For public sector foundation works projects, as long as the main contractors are registered on the list of register of the contractors of (i) the Works Branch of the Development Bureau, and (ii) the Buildings Department under the appropriate category(ies) and are so appointed, there is no legal requirement for the subcontractors to possess the same registrations. Notwithstanding the aforesaid, subcontractors engaged under the public sector projects are generally required to possess the relevant registration(s) under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council.

During the Track Record Period and up to the Latest Practicable Date, our Group acted as a subcontractor for both private and public sector foundation works projects. Kwong Luen Engineering, our principal operating subsidiary, was (i) a registered specialist trade contractor on the Register of Specialist Trade Contractors under the designated trade categories of concreting (Group 1), concreting formwork (Group 1) and reinforcement bar fixing (Group 1); and (ii) a registered subcontractor on the Register of Subcontractors under general civil works with trade specialties of earthwork and road drainage and sewer. For further details, please refer to the section headed "Business – Licence and qualifications" in this document.

Our Group is not registered on the list of register of the contractors of (i) the Works Branch of the Development Bureau, or (ii) the Buildings Department under any category. Our executive Directors believe that this will not affect our ability to undertake both private and public sector foundation works projects as we intend to maintain our role as a subcontractor in the future.

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

According to the F&S Report, the gross value of foundation works registered an overall growth from approximately HK$18.6 billion in 2014 to approximately HK$23.9 billion in 2019, representing a CAGR of approximately 5.1%. Attributable to the planned infrastructure development projects, the increase of land supply and the expected number of new private residential buildings to be completed, the gross value of foundation works is anticipated to increase at a CAGR of approximately 3.2% for the next five years, reaching approximately HK$25.7 billion in 2024. Specifically, the private sector of foundation works in Hong Kong increased from approximately HK$13.3 billion in 2014 to approximately HK$16.5 billion in 2019, at a CAGR of approximately 6.9%. In view of rising private residential housing supply, the private sector of foundation works in Hong Kong would maintain its growth at a CAGR of approximately 3.1% from 2020 to 2024.

We believe that our competitive strengths include: (i) we have an established track record in the foundation industry in Hong Kong; (ii) we own a machinery fleet to carry out a wide range of foundation works; (iii) we possess the know-how to perform comprehensive ELS works with various methods; (iv) our management team is experienced and dedicated; and (v) we impose a stringent quality control and high safety standard and environmental impact control.

BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) competing for foundation projects and expanding our market share; (ii) adhering to prudent financial management to ensure optimal finance costs and capital sufficiency; (iii) acquiring additional machinery to enhance our machinery fleet; (iv) expanding our workforce; and (v) investing in hardware device and computer software to enhance our information technology capability and project implementation efficiency. For further information, please refer to the section headed "Business – Business strategies" in this document.

SALES AND MARKETING AND PRICING STRATEGY

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

Our pricing is generally determined based on certain mark-up over our estimated costs. Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (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; (ix) the estimated cost for waste disposal; and (x) the prevailing market conditions. For further information, please refer to the section headed "Business – Pricing strategy" in this document.

RISK FACTORS

Potential **[REDACTED]** are advised to carefully read the section headed "Risk factors" in this document before making any **[REDACTED]** decision in the **[REDACTED]**. Some of the more particular risk factors include the following: (i) most of our revenue during the Track Record Period was derived from projects awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial performance; (ii) our revenue is mainly derived from projects which are non-recurrent in nature and there is no guarantee that our customers will provide us with new businesses; (iii) the total actual value of work done may differ from the original estimated contract sum stated in our contracts with customers; (iv) we are subject to credit risk in relation to the collectability of our trade receivables, contract assets arising from construction services and retention receivables; (v) our profitability may be affected by the potential increase in depreciation expenses and staff costs as a result of acquisition of additional machinery and recruitment of additional staff under our expansion plan. It is estimated that additional depreciation expenses on plant and machinery of approximately HK$5.2 million will be incurred per annum after we have acquired all the machinery that we intended to purchase and additional staff costs of approximately nil and HK$10.8 million will be incurred for FY2020/21 and FY2021/22, respectively; and (vi) our performance depends on market conditions and trends in the foundation industry and if there is any slowdown (in terms of transaction volume and price) of the property market in Hong Kong, the availability of foundation projects in Hong Kong may decrease significantly.

KEY OPERATIONAL AND FINANCIAL DATA

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

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

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2019	Five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	170,225	272,916	404,825	74,918	221,235
Cost of sales	(150,746)	(239,692)	(352,608)	(65,375)	(192,712)
Gross profit	19,479	33,224	52,217	9,543	28,523
Profit before tax	16,815	30,127	46,380	7,807	18,629
Income tax expenses	(2,774)	(4,971)	(7,972)	(1,288)	(4,289)
Profit and total comprehensive income for the year/period	14,041	25,156	38,408	6,519	14,340

Our revenue increased from approximately HK$170.2 million for FY2017/18 to approximately HK$272.9 million for FY2018/19, and increased further to approximately HK$404.8 million for FY2019/20, while our Group's revenue increased from approximately HK$74.9 million for the five months ended 31 August 2019 to approximately HK$221.2 million for the five months ended 31 August 2020. Such increase in our Group's revenue over the Track Record Period was mainly attributable to (i) we recorded an increase in the number of projects with revenue recognised during the financial year from 17 for FY2017/18 to 21 for FY2018/19 and 33 for FY2019/20; and (ii) the number of project with revenue contribution over HK$50.0 million during the financial year increased from nil for FY2017/18 to one for FY2018/19, and increased further to three for FY2019/20. In this regard, our Directors consider that our Group possesses the capability of undertaking sizeable foundation works projects in light of our Group's established reputation and track record in the foundation industry, technical know-how in performing comprehensive ELS works with various methods and our growing in-house service capacity.

For further details of the reasons for the fluctuation in our revenue, please refer to the section headed "Financial information – Period-to-period comparison of results of operations" in this document.

Highlights of combined statements of financial position

	As at 31 March 2018 HK$'000	As at 31 March 2019 HK$'000	As at 31 March 2020 HK$'000	As at 31 August 2020 HK$'000	As at 31 December 2020 HK$'000
Current assets					
Contract assets	21,539	26,795	56,695	75,881	112,313
Trade receivables	889	16,976	10,397	14,685	6,800
Prepayments and deposits	43	–	1,095	4,553	4,595
Due from a director	15,967	18,395	7	–	–
Cash and cash equivalents	2,197	3,696	15,052	8,321	11,418
Total current assets	40,635	65,862	83,246	103,440	135,126
Current liabilities					
Trade and retention payables	6,930	18,755	18,825	25,628	26,927
Accruals and other payables	4,685	772	3,225	2,082	9,526
Interest-bearing bank and other borrowings	7,417	3,000	3,000	–	15,920
Lease liabilities	425	545	612	621	462
Tax payable	578	1,711	4,225	7,431	10,252
Total current liabilities	20,035	24,783	29,887	35,762	63,087
Net current assets	20,600	41,079	53,359	67,678	72,039
Net assets	38,258	63,414	80,822	95,162	108,219

Our net current assets increased from approximately HK$20.6 million as at 31 March 2018 to approximately HK$41.1 million as at 31 March 2019 mainly because (i) the increase in our Group's trade receivables primarily attributable to Project No. #09 and #12; and (ii) the increase in our Group's retention receivables that was in line with our business growth and number of sizeable projects undertaken. Our net current assets then increased from approximately HK$41.1 million as at 31 March 2019 to approximately HK$53.4 million as at 31 March 2020 mainly due to the combined effects of (i) the increase in our contract assets as discussed in the section headed "Financial information – Discussion on selected financial position items – Contract assets" in this document; and (ii) the increase in our cash and cash equivalents, which corresponded to our Group's increased profit and total comprehensive income for the year; and partially offset by (iii) the decrease in the amount due from a director mainly through settlement from the dividend declared, comprising the final dividend of HK$12.0 million declared in respect of FY2018/19 and the interim dividend of HK$9.0 million declared in respect of FY2019/20; and (iv) the decrease in our trade receivables. Subsequently, our Group's net current assets increased further to approximately HK$67.7 million and HK$72.0 million as at 31 August 2020 and 31 December 2020, respectively, mainly due to (i) the increase in our Group's contract assets and trade receivables as attributable to our ongoing foundation works as well as certain new foundation works that were commenced; and (ii) the increase in our prepayments and deposits mainly in relation to the **[REDACTED]**; and partially offset by (iii) the increase in our Group's interest-bearing bank and other borrowings.

Highlights of combined statements of cash flows

	FY2017/18 *HK$'000*	FY2018/19 *HK$'000*	FY2019/20 *HK$'000*	Five months ended 31 August 2019 *HK$'000*	Five months ended 31 August 2020 *HK$'000*
Operating cash flows before movements in working capital	22,451	36,532	54,209	10,736	23,581
Changes in working capital	4,824	(13,574)	(21,893)	5,990	(22,873)
Interest paid	(133)	(144)	(156)	(64)	(16)
Interest element of lease payments	(31)	(37)	(39)	(18)	(16)
Hong Kong profits tax paid	(3,024)	(3,044)	(4,879)	–	(1,051)
Net cash flows from/(used in) operating activities	24,087	19,733	27,242	16,644	(375)
Net cash flows used in investing activities	(24,752)	(13,290)	(15,293)	(7,383)	(3,104)
Net cash flows used in financing activities	(4,458)	(527)	(593)	(252)	(3,252)
Net increase/(decrease) in cash and cash equivalents	(5,123)	5,916	11,356	9,009	(6,731)
Cash and cash equivalents at the beginning of year/period	2,903	(2,220)	3,696	3,696	15,052
Cash and cash equivalents at the end of year/period	(2,220)	3,696	15,052	12,705	8,321
Analysis of balances of cash and cash equivalents					
Cash and cash equivalents as stated in the combined statements of financial position	2,197	3,696	15,052	12,705	8,321
Bank overdrafts	(4,417)	–	–	–	–
Cash and cash equivalents as stated in the combined statements of cash flows	(2,220)	3,696	15,052	12,705	8,321

Our Group recorded a negative cash and cash equivalents of approximately HK$2.2 million as at 31 March 2018 mainly due to the bank overdrafts of approximately HK$4.4 million as at 31 March 2018 that was utilised for our Group's purchase of items of property, plant and equipment and advances to a director, while we recorded a positive cash and cash equivalents of approximately HK$3.7 million, HK$15.1 million and HK$8.3 million as at 31 March 2019, 31 March 2020 and 31 August 2020, respectively.

Our net cash flows from operating activities decreased from approximately HK$24.1 million for FY2017/18 to approximately HK$19.7 million for FY2018/19 mainly attributable to the negative adjustment due to (i) the increase in trade receivables by approximately HK$16.1 million and the increase in contract assets by approximately HK$5.3 million, in which the increase in our trade receivables was mainly due to the substantial amount of foundation works we had performed for certain sizeable projects, particularly for Project No. #01, during the financial year, and we had issued the relevant billings to Customer A around late FY2018/19; and (ii) the Hong Kong profits tax paid of approximately HK$3.0 million partly offset by the positive adjustment due to (iii) the increase in trade and retention payables by approximately HK$11.8 million due to the increase in the amount and scale of foundation works that we had engaged our subcontractors to perform around late FY2018/19 for Project No. #01; and (iv) the depreciation of property, plant and equipment of approximately HK$5.7 million.

Our net cash flows used in operating activities for the five months ended 31 August 2020 was mainly resulted from (i) the increase in contract assets and trade receivables in relation to the substantial amount of foundation works we had performed for our Group's ongoing projects as well as certain new projects that commenced works during the five months ended 31 August 2020; and (ii) the Hong Kong profits tax paid; which was partly offset by (iii) the increase in trade and retention payables; and (iv) the depreciation of property, plant and equipment. For further details, please refer to the sections headed "Risk factors – We recorded net cash flows used in operating activities for the five months ended 31 August 2020", "Financial information – Liquidity and capital resources" and "Financial Information – Liquidity and capital resources – Cash flows – Cash flows from operating activities" in this document. Going forward, our Group will (a) continue to follow up closely with our customers in settling the respective projects' outstanding balances for the work we had completed; (b) prior to the commencement of each project, our project management team will prepare forecast on the cash inflow and cash outflow for the respective project, and negotiate with our customers in our best effort to set out the most favourable payment terms for our Group; (c) our project management team is responsible for documenting expected cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow plans for each project and submitting the cashflow plans to our finance and administration staff on a monthly basis; (d) our finance and administration staff, led by our financial controller, will be responsible for reviewing the cashflow plans for our projects and submitting the cashflow plans to our management for review; and (e) in the event that there is expected net cash outflow for a particular month, we will actively follow up with our customers for payment or plan for financing.

Summary of financial ratios

	FY2017/18 or as at 31 March 2018	FY2018/19 or as at 31 March 2019	FY2019/20 or as at 31 March 2020	Five months ended 31 August 2020 or as at 31 August 2020
Revenue growth	N/A	60.3%	48.3%	195.3%
Net profit growth	N/A	79.2%	52.7%	120.0%
Gross profit margin	11.4%	12.2%	12.9%	12.9%
Net profit margin	8.2%	9.2%	9.5%	6.5%
Return on equity	36.7%	39.7%	47.5%	15.1%
Return on total assets	23.0%	27.3%	33.4%	10.6%
Current ratio	2.0 times	2.7 times	2.8 times	2.9 times
Quick ratio	2.0 times	2.7 times	2.8 times	2.9 times
Inventories turnover days	N/A	N/A	N/A	N/A
Trade receivables turnover days	16.0 days	11.9 days	12.3 days	8.7 days
Trade payables turnover days	13.5 days	17.9 days	17.4 days	15.0 days
Gearing ratio	21.4%	6.8%	5.1%	0.9%
Net debt to equity ratio	15.7%	0.9%	Net cash	Net cash
Interest coverage	103.5 times	167.4 times	238.8 times	583.2 times

For the five months ended 31 August 2020, our Group's revenue and net profit increased by approximately 195.3% and 120.0%, respectively, as compared to the corresponding period in 2019. This is mainly due to (i) our Group had undertaken Project No. #03 that was only commenced in August 2019; and (ii) the number of project undertaken by our Group with revenue contribution of over HK$10.0 million to below HK$20.0 million increased from one to four, resulting in the relevant revenue contribution to increase by approximately HK$46.4 million. The gearing ratio and net debt to equity ratio of our Group have been improved over the Track Record Period mainly due to our decreasing interest-bearing bank and other borrowings following the settlement of the bank overdrafts and revolving loan in May 2020 along with our increasing equity base. On top of the aforementioned underlying factors to the gearing ratio and net debt to equity ratio, our Group's net profit growth also contributed to the increase in our interest coverage over the Track Record Period.

Non-HKFRS measures

The following table sets forth our adjusted net profit and adjusted net profit margin for each respective financial year/period during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**Five months ended 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before tax	16,815	30,127	46,380	18,629
Net profit	14,041	25,156	38,408	14,340
Add: **[REDACTED]**	–	–	**[REDACTED]**	**[REDACTED]**
Adjusted net profit	14,041	25,156	40,343	21,940
Adjusted net profit margin	8.2%	9.2%	10.0%	9.9%

We recognised non-recurring items such as **[REDACTED]** during the Track Record Period and therefore we also present adjusted net profit for the financial year/period, which is a non-HKFRS measure to supplement our combined financial information which are presented in accordance with HKFRS. There was no tax impact on the adjusted net profit for **[REDACTED]** as such expenses were non-deductible, such that the tax expenses was the same as adjusted tax expenses.

We present such additional financial measure as it was used by our management to evaluate our financial performance by eliminating the impact of **[REDACTED]**, which is with one-off nature and is considered not indicative for evaluation of the actual performance of our business. Our Directors believe that such non-HKFRS measure provides additional information to **[REDACTED]** and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

CONTROLLING SHAREHOLDERS

Immediately following completion of the **[REDACTED]** and the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme), Kwong Luen Prosperity will be beneficially interested in **[REDACTED]**% of the issued Shares. Kwong Luen Prosperity is owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. Accordingly, Mr. Yip and Ms. Kwan are regarded as a group of Controlling Shareholders as they indirectly hold in aggregate **[REDACTED]**% of the issued Shares through Kwong Luen Prosperity, which is a common investment holding vehicle that exclusively holds their interests in our Company. For the purpose of the Listing Rules, Mr. Yip, Ms. Kwan and Kwong Luen Prosperity are our Controlling Shareholders. Please refer to the section headed "Substantial Shareholders" in this document for details of the shareholding interest of our Controlling Shareholders.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, there were seven workplace accidents resulting in injuries to our employees and/or our subcontractor's employee, among which, the claim arising from one of the accidents was settled and the remaining six accidents may give rise to potential litigations in relation to employees' compensation claims and/or personal injury claims against our Group. All these seven workplace accidents were fully covered by the relevant insurance policies. For further details, please refer to the section headed "Business – Litigations and potential claims" in this document.

[REDACTED]

Number of the **[REDACTED]**	:	**[REDACTED]** Shares (subject to the **[REDACTED]**)
[REDACTED]	:	Not more than HK$**[REDACTED]** per **[REDACTED]** and expected to be not less than HK$**[REDACTED]** per **[REDACTED]** (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

	Based on an [REDACTED] of HK$[REDACTED] per [REDACTED] *HK$*	Based on an [REDACTED] of HK$[REDACTED] per [REDACTED] *HK$*
Market capitalisation *(Note 1)*	**[REDACTED]**	**[REDACTED]**
Unaudited **[REDACTED]** adjusted combined net tangible assets of our Group attributable to equity holders of our Company per Share *(Note 2)*	**[REDACTED]**	**[REDACTED]**

Notes:

1. The calculation of the market capitalisation of the Shares is based on **[REDACTED]** Shares in issue and to be issued immediately after completion of the **[REDACTED]** and taking no account of any Shares which may be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme or Shares which may allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.

2. Please refer to Appendix II to this document for the bases and assumptions in calculating the figures.

[REDACTED]

Our Directors estimate that the total amount of expenses in relation to the **[REDACTED]** is approximately HK$**[REDACTED]** million. Based on an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** (being the mid-point of the indicative **[REDACTED]** range of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**), the gross **[REDACTED]** from the **[REDACTED]** are expected to be approximately HK$**[REDACTED]** million. The estimated expenses in relation to the **[REDACTED]** represents approximately **[REDACTED]**% of the gross **[REDACTED]** from the **[REDACTED]**. Out of the amount of approximately HK$**[REDACTED]** million, approximately HK$**[REDACTED]** million is directly attributable to the issue of the **[REDACTED]** and is expected to be accounted for as a deduction from equity upon **[REDACTED]**. The remaining amount of approximately HK$**[REDACTED]** million, which cannot be so deducted, shall be charged to profit or loss and other comprehensive income, approximately HK$**[REDACTED]** million and HK$**[REDACTED]** million have been charged during FY2019/20 and the five months ended 31 August 2020, respectively, while approximately HK$**[REDACTED]** million is expected to be incurred for the remaining months of FY2020/21. Expenses in relation to the **[REDACTED]** are non-recurring in nature. Our Group's financial performance and results of operations for FY2020/21 will be adversely affected by the estimated expenses in relation to the **[REDACTED]**.

REASONS FOR THE [REDACTED]

Our executive Directors believe that the **[REDACTED]** is beneficial to our Company and our Shareholders as a whole because of the following reasons: (i) the **[REDACTED]** from the **[REDACTED]** will provide additional financial resources to our Group for our business plans; (ii) a **[REDACTED]** status will enhance our corporate profile and recognition; (iii) the **[REDACTED]** will provide a fund-raising platform for our Company; and (iv) upon the **[REDACTED]**, our Shares will be freely traded on the Stock Exchange. For further details, please refer to the section headed "Future plans and **[REDACTED]** – Reasons for the **[REDACTED]**" in this document.

FUTURE PLANS AND [REDACTED]

The **[REDACTED]** to be received by us from the **[REDACTED]** (assuming the **[REDACTED]** is not exercised) based on the **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, after deducting related expenses in connection with the **[REDACTED]**, are estimated to be approximately HK$**[REDACTED]** million. Our Directors presently intend that the **[REDACTED]** will be applied as follows: (i) approximately HK$**[REDACTED]** million, representing **[REDACTED]**% of the estimated **[REDACTED]** will be used for financing the up-front costs of our projects; (ii) approximately HK$**[REDACTED]** million, representing **[REDACTED]**% of the estimated **[REDACTED]** will be used to purchase additional machinery, namely excavators and crawler crane; (iii) approximately HK$**[REDACTED]** million, representing **[REDACTED]**% of the estimated **[REDACTED]** will be used for further expanding and strengthening our manpower by recruiting additional staff, including site agent, engineer, quantity surveyors, safety officer, site foremen, site workers, machinery operators and accounting staff; and (iv) approximately HK$**[REDACTED]** million, representing **[REDACTED]**% of the estimated **[REDACTED]** will be used for purchasing a building information modeling software together with certain ancillary supporting hardware device.

DIVIDEND

We had declared dividends of nil, approximately HK$12.0 million, HK$9.0 million and nil in respect of FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. All such relevant dividends had been fully settled through the current accounts with our Directors in FY2019/20. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 16 projects on hand. For further details, please refer to the section headed "Business – Projects on hand" in this document. The total revenue attributable to our backlog projects yet to be recognised as at the Latest Practicable Date is approximately HK$468.1 million. Subsequent to the Track Record Period, we obtained a sizeable project, namely Project No. O15, with estimated contract sum of approximately HK$41.6 million from Customer B.

The backlog value of our projects on hand decreased from approximately HK$575.2 million as at 31 August 2020 to approximately HK$468.1 million as at the Latest Practicable Date, whereas the number of our projects on hand decreased from 33 as at 31 August 2020 to 16 as at the Latest Practicable Date.

The relatively higher backlog value of our projects on hand as at 31 August 2020 was mainly attributable to the award of Project No. O01 to us in June 2020, which has an estimated contract sum of approximately HK$328.5 million. Our executive Directors consider that the backlog value of our projects on hand as at the Latest Practicable Date (i.e. HK$468.1 million) could support our business growth, given that it was much higher than the backlog value of our projects on hand as at 31 March 2018 (i.e. HK$249.9 million), 31 March 2019 (i.e. HK$263.5 million) and 31 March 2020 (i.e. HK$288.7 million), respectively. Meanwhile, the decrease in the number of our projects on hand was mainly due to our allocation of more resources for handling our sizeable projects, in particular Project No. O01, while some of our smaller scale projects were completed during the period. Our Group would continue to selectively pursue suitable tenders based on our internal resources and other factors. As at the Latest Practicable Date, our Group had 57 tenders with an aggregate estimated tender amount of approximately HK$1.3 billion, which were still undergoing tender selection process and pending tender result.

In response to the outbreak of the novel coronavirus in Hong Kong since January 2020, we have implemented certain hygiene and safety related measures. For further details, please refer to the section headed "Business – Occupational health and work safety" in this document.

Impact of the outbreak of the novel coronavirus on our operations

Confirmed cases of novel coronavirus at one of the project sites of our ongoing projects

In early December, several confirmed cases of novel coronavirus were reported at the project site of Project No. O02 located in Lam Tin (the "**Lam Tin Site**"). For further details on Project No. O02, please refer to the paragraph headed "Business – Projects on hand" in this document. In order to contain the transmission of coronavirus and to facilitate disinfection at the Lam Tin Site, the Centre for Health Protection under the Department of Health in Hong Kong ordered all construction activities at the Lam Tin Site to be suspended from 9 December 2020 to 27 December 2020 (the "**Suspension Notice**"). In compliance with the Suspension Notice, our Group suspended all site works in relation to Project No. O02 during the relevant period.

Subsequently, in early January 2021, there were several new confirmed cases of novel coronavirus reported at the Lam Tin Site. The Centre for Health Protection under the Department of Health in Hong Kong again ordered all construction activities at the Lam Tin Site to be suspended from 4 January 2021 to allow thorough disinfection and cleaning activities to be carried out at the Lam Tin Site. Construction works at the Lam Tin Site have resumed since 22 January 2021. As instructed by the main contractor of Project No. O02, all construction workers at the Lam Tin Site were mandated to retake the coronavirus test and no construction workers shall be allowed to enter the Lam Tin Site without valid proof of negative coronavirus test result upon the resumption of construction activities at the Lam Tin Site. Further, the main contractor of Project No. O02 has announced a series of elevated social distancing measures to contain the transmission of coronavirus at the Lam Tin Site including, restricting the maximum number of workers in changing room, increasing the number of dining places and arranging different meal time for workers. Regular inspection will be performed by the CEDD at the Lam Tin Site to ensure the elevated social distancing measures are strictly implemented. Our executive Directors confirmed that all of the confirmed cases of novel coronavirus reported at the Lam Tin Site as at the Latest Practicable Date were related to the employees of other contractors at the Lam Tin Site and none of those were related to our employees or our subcontractors' employees. We were informed by the main contractor that they shall closely coordinate with the relevant working parties and make arrangement to ensure Project No. O02 can be proceeded and completed according to its original project schedule. Our executive Directors and administrative staff have been and will continue closely monitor the latest development at the Lam Tin Site and any potential impacts on Project No. O02 resulting therefrom.

Our executive Directors considered that the temporary suspension of work at the Lam Tin Site did not result in material business or financial impact to our Group, taking into consideration (i) the construction works affected by the temporary suspension of Project No. O02 were mainly related to certain start up as well as preparation works performed at the initial stage of the project, while the substantial part of construction works are scheduled to be performed in the first quarter of 2021. Therefore, our executive Directors are of the view that the temporary suspension of works did not result in any material adverse impact on the project schedule of Project No. O02; (ii) our Group may deploy additional resources to Project No. O02 to ensure timely completion of works; (iii) we were not aware of any forthcoming suspension order or notice in relation to Project No. O02 as at the Latest Practicable Date; and (iv) our executive Directors do not foresee any material adverse change to the estimated revenue or profit to be recognised from Project No. O02 resulting from the temporary suspension of work.

Save as disclosed above and based on information available as at the Latest Practicable Date, our executive Directors consider that the outbreak of the novel coronavirus 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 cancellation of work orders from our customers. Further, our Group had not received any notification from the relevant customers that Project No. O01 and Project No. O03 would be materially delayed or suspended as a result of the outbreak of the novel coronavirus;
- we had not experienced any material delay in the settlement of payment to us by our customers as a result of the outbreak of the novel coronavirus;
- we had not experienced any material decline in the number of tender invitations received by us following the outbreak of the novel coronavirus;
- as at the Latest Practicable Date, our Group had a total of 57 tenders which were still undergoing tender selection process and pending tender result. In respect of these 57 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 the novel coronavirus;
- 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 novel coronavirus;

- 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 the novel coronavirus;

- our average monthly revenue recognised during the five months ended 31 August 2020 was approximately 195.3% higher than that for the five months ended 31 August 2019, while our average monthly gross profit during the five months ended 31 August 2020 was approximately 198.9% higher than that for the five months ended 31 August 2019;

- based on the unaudited management account of our Group for the three months ended 30 November 2020 and the corresponding period in 2019, our revenue and gross profit increased significantly, while our gross profit margin remained relatively stable for the three months ended 30 November 2020 as compared to the corresponding period in 2019. Our revenue recognised increased significantly for the three months ended 30 November 2020 as compared to the corresponding period in 2019 which was mainly attributable to our substantial amount of works performed for (i) Project No. #03, which contributed revenue of approximately HK$23.4 million for the three months ended 30 November 2020; and (ii) Project No. O11, which commenced in July 2020 and contributed revenue of approximately HK$46.3 million for the three months ended 30 November 2020; and

- according to the F&S Report, the outbreak of the novel coronavirus is expected to have limited impact on the demand for Hong Kong's foundation industry in the long run due to the fact that (i) the major construction projects in the pipeline are on-going as planned; and (ii) the general construction works in Hong Kong, ranging from roads, housings, 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 section headed "Industry overview – Foundation industry overview" in this document.

In the event that the outbreak of the novel coronavirus 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 cash equivalent and trade receivables as at 31 December 2020 and receive our trade receivables based on historical settlement pattern; (ii) during the suspension of work, we will continue paying our staff at the minimum wage level permissible under the relevant laws and regulation and other fixed costs; and (iii) we will settle our trade payables as at 31 December 2020 based on historical settlement pattern.

Our Directors confirm that, save for the expenses in connection with the **[REDACTED]**, up to the date of this document, there has been no material adverse change in our financial or trading position or prospect since 31 August 2020, and there had been no events since 31 August 2020 which would materially affect the information shown in our combined financial statements included in the Accountants' Report set out in Appendix I to this document.

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

"Accountants' Report"	the accountants' report of our Company, the text of which is set forth in Appendix I to this document

[REDACTED]

"Articles" or "Articles of Association"	the amended and restated articles of association of our Company adopted on 19 February 2021 which will become effective on the **[REDACTED]** and as amended from time to time, a summary of which is set out in Appendix III to this document
"associate(s)"	has the meaning ascribed thereto it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors of our Company

[REDACTED]

"Building Authority"	the Building Authority of the Government
"Buildings Department"	the Buildings Department of the Government
"Buildings Ordinance"	the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Business Day" or "business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compounded annual growth rate

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

"CEDD"	the Civil Engineering and Development Department of the Government
"Chairman"	the chairman of the Board, Mr. Yip
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law" or "Cayman Companies Law"	the Companies Act (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

"Company" or "our Company"	Kwong Luen Engineering Holdings Limited (廣聯工程控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 20 May 2020 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 3 July 2020
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction"	has the meaning ascribed to it under the Listing Rules
"Construction Industry Council"	the Construction Industry Council, a body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, means Mr. Yip and Ms. Kwan, as a group of controlling shareholders, and the company through which each of them holds interest in our Company, namely, Kwong Luen Prosperity
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Deed of Indemnity"	the deed of indemnity dated 19 February 2021 given by our Controlling Shareholders in favour of our Company regarding certain indemnities, details of which are set out in the paragraph headed "E. Other Information – 1. Tax and other indemnities" in Appendix IV to this document
"Deed of Non-competition"	the deed of non-competition dated 19 February 2021 given by our Controlling Shareholders in favour of our Company regarding certain non-competition undertakings, details of which are set out in the paragraph headed "Relationship with Controlling Shareholders – Non-competition undertakings" in this document
"Development Bureau"	the Development Bureau of the Government
"Director(s)"	the director(s) of our Company
"ELS works" or "ELS"	excavation and lateral support works

"F&S"	Frost & Sullivan Limited, an independent market research agency, which is an independent third party
"F&S Report"	a market research report commissioned by us and prepared by F&S on the overview of the industry in which our Group operates
"foundation works"	the construction of foundation in building, civil or infrastructure projects, which, in respect of our business, mainly include ELS and other associated works including pile cap construction, underground drainage works and site formation works
"FY2017/18"	the financial year ended 31 March 2018
"FY2018/19"	the financial year ended 31 March 2019
"FY2019/20"	the financial year ended 31 March 2020
"FY2020/21"	the financial year ending 31 March 2021
"FY2021/22"	the financial year ending 31 March 2022
"FY2022/23"	the financial year ending 31 March 2023
"Government"	the Government of the Hong Kong Special Administrative Region of the PRC
"Group", "we", "us" or "our Group"	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our present subsidiaries and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"HKD" or "HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

[REDACTED]

[REDACTED]

[REDACTED]

"Hong Kong", "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Housing Authority"	the Hong Kong Housing Authority, a statutory body in Hong Kong established under the Housing Ordinance (Chapter 283 of the Laws of Hong Kong) which is responsible for developing and implementing Hong Kong's public housing programme
"independent third party(ies)"	an individual(s) or a company(ies) who or which is/are independent and not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive, Substantial Shareholders of our Company or any of its subsidiaries, or any of their respective associates
"ISO"	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 9001"	a quality management system standard that is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement
"ISO 14001"	an environmental management system standard that maps out a framework that a company or organisation can follow to set up an effective environmental management system, to provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved
"Kwong Luen Engineering"	Kwong Luen Engineering Limited (廣聯工程有限公司), a company incorporated in Hong Kong on 25 May 1995 with limited liability and indirectly wholly-owned by our Company upon completion of the Reorganisation

"Kwong Luen Prosperity"	Kwong Luen Prosperity Limited (廣聯昌盛有限公司), a company incorporated in BVI with limited liability on 18 May 2020 directly owned as to 50% by each of Mr. Yip and Ms. Kwan respectively, and is one of our Controlling Shareholders
"Kwong Luen Success"	Kwong Luen Success Limited (廣聯實業有限公司), a company incorporated in BVI with limited liability on 18 May 2020 and a direct wholly-owned subsidiary of our Company
"Labour Department"	the Labour Department of the Government
"Latest Practicable Date"	17 February 2021, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information in this document prior to its publication
"Legal Counsel"	Mr. Chan Chung, barrister-at-law of Hong Kong

[REDACTED]

[REDACTED]

[REDACTED]

"Listing Rules"	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange, as amended, modified and supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"main contractor"	in respect of a construction project, a contractor who is appointed by the project owner and who generally oversees the progress of the entire construction project and delegates different work tasks of the construction to other subcontractors
"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company adopted on 19 February 2021 which will become effective on the **[REDACTED]**, a summary of which is set out in Appendix III to this document and as amended from time to time

"Mr. Yip"	Mr. Yip Kwong Cheung (葉廣祥), our executive Director, chief executive officer, Chairman of the Board, one of our Controlling Shareholders and the spouse of Ms. Kwan
"Ms. Kwan"	Ms. Kwan Chui Ling (關翠玲), our executive Director, one of our Controlling Shareholders and the spouse of Mr. Yip
"Nomination Committee"	the nomination committee of the Board
"Non-Authorised Institution"	an institution non-authorised under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) to carry on the business of taking deposits
"NRMM Regulation"	the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"NRMM(s)"	non-road mobile machinery

[REDACTED]

[REDACTED]

"OHSAS 18001"	an international standard setting out requirements for an occupational health and safety management system developed for managing the occupational health and safety risks associated with a business

[REDACTED]

"pile cap"	a concrete block that is placed on the top of a pile or a group of piles to transmit and distribute loads from the structure to the pile or group of piles, which usually forms a part of the foundation of a building or structure

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

"PRC"	the People's Republic of China, which for the purpose of this document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Predecessor Companies Ordinance"	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014

[REDACTED]

[REDACTED]

"private sector projects"	works contracts that are not public sector projects
"Project No. #XX"	the top projects with accumulated revenue contribution to our Group of HK$30.0 million or above during the Track Record Period, details of which are set out in the paragraph headed "Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period" in this document
"Project No. OXX"	some of our projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced as at the Latest Practicable Date, details of which are set out in the paragraph headed "Business – Projects on hand" in this document
"project owner"	for the purpose of our Group's projects, refer to the customer of main contractors in both private and public sectors

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

"public sector projects"	works contracts of which the ultimate project owner is the Government, a statutory body or their associated organisation
"Registered Specialist Trade Contractors Scheme"	the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council
"regulated machine(s)"	any mobile machine(s) or transportable industrial equipment(s) (other than a vehicle of a class specified in Schedule 1 to the Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong) that is/are powered by an internal combustion engine with a rated engine power output that is greater than 19 kW but not greater than 560 kW

[REDACTED]

"Remuneration Committee"	the remuneration committee of the Board
"Reorganisation"	the corporate reorganisation of our Group in preparation for the **[REDACTED]** as described in the paragraph headed "History, Reorganisation and Corporate Structure – Reorganisation" in this document
"Sanfield"	Sanfield (Management) Limited, a company incorporated in Hong Kong on 23 June 1993 and a subsidiary of a company listed on the Main Board of the Stock Exchange, being one of our top customers and independent third party
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

[REDACTED]

"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 19 February 2021, the principal terms of which are summarised in the paragraph headed "D. Share Option Scheme" in Appendix IV to this document

"Share(s)"	ordinary share(s) with par value of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"shoring"	a temporary support system using shores (such as piles and lagging) to support the surrounding loads and prevent the collapse of a trench or excavated underground area
"Shui Wing Group"	Shui Wing Group consists of two private companies, namely Shui Wing Construction Company Limited and Shui Wing Engineering Company Limited. Shui Wing Group is one of our top customers and independent third party
"Sponsor"	Grande Capital Limited, the sponsor to our Company's application for the **[REDACTED]** and a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities

[REDACTED]

[REDACTED]

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules and details of our Substantial Shareholders are set out in the section headed "Substantial Shareholders" in this document
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
"Technical Circular"	Technical Circular (Works) No. 1/2015 issued by the Works Branch of the Development Bureau on 8 February 2015

"Track Record Period"	FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020

[REDACTED]

[REDACTED]

"United States" or "U.S."	the United States of America
"Up-front Period"	the period required for our Group to generate positive cumulative cash flow from a project since its commencement

[REDACTED]

"US$"	United States dollars, the lawful currency of the United States of America

[REDACTED]

[REDACTED]

"%"	per cent

FORWARD-LOOKING STATEMENTS

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

- our Group's business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of our Group's business;
- our Company's dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operates;
- future developments in the industry in which our Group operates; and
- the trend of the economy of Hong Kong and the world in general.

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

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

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated. Prospective **[REDACTED]** should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this document are qualified by reference to the cautionary statements as set out in this section.

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

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

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

RISKS RELATING TO OUR BUSINESS

Most of our revenue during the Track Record Period was derived from projects awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial performance

A significant portion of our revenue was derived from a limited number of customers such as Customer A, during the Track Record Period. Our top five customers for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020 accounted for 100.0%, 99.2%, 96.2% and 95.2% of our revenue in the corresponding periods, respectively. In particular, a significant portion of our revenue during the Track Record Period was derived from Customer A, which has been one of our top five customers during the Track Record Period and our largest customer for FY2017/18, FY2018/19 and FY2019/20. Customer A contributed revenue of approximately HK$112.7 million, HK$187.3 million, HK$221.8 million and HK$78.8 million, representing approximately 66.2%, 68.6%, 54.8% and 35.6% of our total revenue for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. Our Group's gross profit margin attributable to Customer A was approximately 16.3%, 16.5%, 17.0% and 19.7% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively, which was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period. For further details, please refer to the paragraph headed "Business – Our customers – Further information on our top customers – Customer A and Sanfield" in this document. We were engaged by our customers on a project-by-project basis during the Track Record Period. There is no assurance that we will continue to obtain contracts from our major customers in the future and there is no assurance that we will be able to secure projects with gross profit margin comparable to those projects awarded to us by Customer A. If there is a significant decrease in the number of projects awarded by our major customers, and we are unable to secure suitable projects of a comparable size, quantity or gross profit margin as replacements from other customers, our financial condition and operating results would be materially and adversely affected.

Our revenue is mainly derived from projects which are non-recurrent in nature and there is no guarantee that our customers will provide us with new businesses

Our revenue is typically derived from projects which are non-recurrent in nature and our customers are under no obligation to award projects to us. During the Track Record Period, we secured new businesses mainly through direct invitation for tender by customers. There is no assurance that we will be able to secure new contracts in the future. Accordingly, the number and scale of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we recorded a tender success rate of approximately 17.1%, 19.3%, 14.7% and 14.5%, respectively. Our Directors consider that our success rate on project tendering depends on a range of factors, which primarily include our pricing and tender strategy, competitors' tender and pricing strategy, level of competition and our customers' evaluation standards. There is no assurance that our Group could achieve the same or higher tender success rate in the future as we did during the Track Record Period. In the event that our Group fails to secure new contracts or there is a significant decrease in the number of tender invitations or contracts available for bidding in the future, the business, financial position and prospects of our Group could be materially and adversely affected.

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

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our gross profit amounted to approximately HK$19.5 million, HK$33.2 million, HK$52.2 million and HK$28.5 million, respectively; while our gross profit margin was 11.4%, 12.2%, 12.9% and 12.9%, respectively. During the Track Record Period, a significant portion of our revenue was derived from Customer A, which has been one of our top five customers during the Track Record Period and our largest customer for FY2017/18, FY2018/19 and FY2019/20. Customer A contributed revenue of approximately HK$112.7 million, HK$187.3 million, HK$221.8 million and HK$78.8 million, representing approximately 66.2%, 68.6%, 54.8% and 35.6% of our total revenue for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. Our Group's gross profit margin attributable to Customer A was approximately 16.3%, 16.5%, 17.0% and 19.7% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively, which was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period.

However, the historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that we will be able to secure projects with gross profit margin comparable to those projects awarded to us by Customer A or our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

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

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

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

We may experience net cash outflows as project up-front costs at the preliminary stage of a project. The up-front costs of our projects generally include project startup costs at the initial stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and waste disposal and related fees. Based on our operation history during the Track Record Period and depending on the scale of the projects, it generally took approximately one to seven months for us to generate positive cumulative cash flow from a project since its commencement (the "**Up-front Period**"). Depending on our terms of engagement with different customers, the total amount of up-front costs incurred by our Group during the Up-front Period represented on average approximately 9.6% of the estimated contract sum of the project. Our customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers or their authorised representatives before we issue an invoice to our customers. In addition, our customers may withhold up to 10% of each of our progress payment as retention monies and subject to a cap of 10% of the total contract sum. Depending on the contract terms, the retention monies are generally released (i) upon completion of our works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. Alternatively, in some of our projects, half of the retention monies are released upon the completion on our parts of works and the remaining half are generally released upon six months following such completion. As at 31 March 2018, 2019 and 2020 and 31 August 2020, retention receivables of approximately HK$14.1 million, HK$24.5 million, HK$39.1 million and HK$45.5 million, respectively, were retained by our customers as retention monies. For further information, please refer to the paragraph headed "Business – Our customers – Principal terms of engagement" in this document.

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

Any material inaccurate cost estimation or cost overruns may adversely affect our financial results

When determining our tender price, our management would estimate the time and costs involved in a project taking 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; (ix) the estimated cost for waste disposal; and (x) the prevailing market conditions. For further details on our pricing strategy, please refer to the paragraph headed "Business – Pricing strategy" in this document.

There is no assurance that the actual amount of time and costs incurred during the performance of our projects would not exceed our estimation. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including unforeseen site conditions, adverse weather conditions, accidents, non-performance by our subcontractors, unexpected significant increase in costs of materials agreed to be borne by us, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

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

During the Track Record Period, our contracts with customers generally comprise a combination of fixed lump-sum items and re-measurement items. In respect of fixed lump-sum items, we are generally required to carry out the specified works of fixed quantity at an agreed fixed price. In respect of re-measurement items, the contract will specify 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 our customer's instructions or 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 work done. Depending on our negotiations with customers, some of our customers may also engage us solely based on a lump sum fixed price or on re-measurement basis.

There is no guarantee that our customer will continue to place work orders with us throughout the contract period. If there is no work order, we will not be able to charge the customer or to recognise revenue from the re-measurement items. Accordingly, the value or work orders and the amount of revenue that we are able to derive from such a contract may vary significantly from period to period.

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

Furthermore, our customers may request additional, reduction or alteration of works beyond the scope of the contract during project implementation by placing variation orders with us. The aggregate amount of revenue that we are able to derive from a project may be different from the original estimated contract sum specified in the relevant contract due to variation orders placed by our customers. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our revenue attributable to the variation orders amounted to approximately HK$1.0 million, HK$3.0 million, HK$6.3 million and HK$1.9 million, respectively. For further details on our variation orders, please refer to the paragraph headed "Business – Business operations – Operation flow – Variation orders (if any)" in this document. As such, there is no assurance that the amount of revenue derived from our projects will not be substantially different from the original estimated contract sum as specified in the relevant contracts and our financial condition may be adversely affected by any decrease in our revenue as a result of variation orders.

We are subject to credit risk in relation to the collectability of our trade receivables, contract assets arising from construction services and retention receivables

As at 31 March 2018, 2019 and 2020 and 31 August 2020, we recorded trade receivables of approximately HK$0.9 million, HK$17.0 million, HK$10.4 million and HK$14.9 million, respectively. As at 31 August 2020, our Group recorded an impairment of trade receivables of approximately HK$0.2 million. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our trade receivables turnover days were approximately 16.0 days, 11.9 days, 12.3 days and 8.7 days, respectively. Besides, certain customers adopt a "pay when paid" policy with us and they have the right to pay us after collection of payments from their customers. In the event our customers fail to collect payment from their customers, this will, in turn, adversely affect the collectability of our payments from our customers. A significant portion of our trade receivables were attributable to a limited number of customers during the Track Record Period. Our top five customers for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020 accounted for 100%, 93%, 69% and 100% of our trade receivables in the corresponding periods, respectively. There can be no assurance that our customers will settle our invoices on time and in full.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If our Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. In other words, contract assets consist of our Group's rights to consideration for works completed but unbilled amounts resulting from construction contracts. The contract assets are transferred to trade receivables when the rights become unconditional which was generally one to three months. During the Track Record Period, the average time for our Group's customers to certify our work performed was approximately three months. According to the F&S Report, while at the final stage of a foundation project, it is not uncommon for the customer in the foundation works industry to take a longer period of time (i.e. ranged from 6 to 12 months) to proceed with the final review and approval for the relevant work done of the entire project before issuing the relevant completion certificate. Therefore, on such occasion, the certification process of our projects become longer than the average time. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. Our Group recorded contract assets arising from construction services of approximately HK$7.4 million, HK$2.3 million, HK$17.6 million and HK$31.7 million as at 31 March 2018, 2019 and 2020 and 31 August 2020, respectively. As at 31 August 2020, our Group recorded an impairment of contract assets of approximately HK$1.3 million.

In addition, when undertaking contract works, some of our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention monies. Such percentage generally represents up to 10% of each payment made to us subject to a cap of 10% of the total contract sum. As at 31 March 2018, 2019 and 2020 and 31 August 2020, retention receivables of approximately HK$14.1 million, HK$24.5 million, HK$39.1 million and HK$45.5 million, respectively, were retained by our customers as retention monies. Depending on the contract terms, the retention monies are generally released (i) upon completion of our works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. Alternatively, in some of our projects, half of the retention monies are released upon the completion on our parts of works and the remaining half are generally released upon six months following such completion. However, there is no assurance that such retention monies will be released by our customers to us on a timely basis and in full accordingly. For details of the subsequent settlement of these contract assets, please refer to the paragraph headed "Financial Information – Discussion on selected financial position items – Contract assets" in this document. There is no assurance that we will be able to bill all or any part of contract assets for our services completed according to the payment terms of the contracts.

In the event that we are unable to collect a substantial portion of our trade receivables, contract assets arising from construction services or retention receivables within the payment terms or at all, our cash flows and financial positions will be adversely affected.

Any failure, damage or loss of our machinery may adversely affect our operations and financial performance

Our service capacity for foundation projects generally depends on the availability of our machinery. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, accidents, fire, adverse weather conditions, theft or robbery. In addition, machinery may break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or if any lost machinery cannot be replaced in a timely manner, our operations and financial performance could be adversely affected.

Our performance depends on market conditions and trends in the foundation industry and if there is any slowdown (in terms of transaction volume and price) of the property market in Hong Kong, the availability of foundation projects in Hong Kong may decrease significantly

We have focused on providing foundation works services in the role of subcontractor during the Track Record Period. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we derived approximately 78.6%, 81.5%, 85.4% and 74.0% of revenue from foundation works in projects involving residential developments. The future development of the foundation industry and the availability of foundation projects in Hong Kong depend largely on the continued development of the property market in Hong Kong. The nature, extent and timing of available foundation projects will be determined by an interplay of a variety of factors, including the Government's policies on the property market in Hong Kong, its land supply and public housing policy, the investment of property developers and the general conditions and prospects of Hong Kong's economy. These factors may affect the availability of foundation projects in Hong Kong.

If there is any slowdown (in terms of transaction volume and price) of the property market in Hong Kong, there is no assurance that the availability of foundation projects in Hong Kong would not decrease significantly and our Group's business and financial position and prospect may be adversely and materially affected.

Any deterioration in the outbreak of the novel coronavirus may adversely affect our operation and financial condition

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

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

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

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

Events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks could significantly delay, or even prevent us from completing, our projects

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions in our operations and adversely affect our business. These include epidemics, natural disasters, fire, adverse weather conditions, political unrest, wars and terrorist attacks. Any such events could cause us to reduce or halt our operation, adversely affect our business operation, increase our costs and/or prevent us from completing our projects, any one of which could materially and adversely affect our business, financial condition and results of operations. In particular, there have been a series of public assemblies and protests in Hong Kong relating to the proposed amendments to the Fugitive Offenders Ordinance (Chapter 503 of the Laws of Hong Kong) since June 2019. The occurrence and duration of such public assemblies and protests cannot be predicted or controlled by our Group and may have significant and adverse impact on our business operations and operating results.

In such event, our business operations may also be severely disrupted due to a negative impact on **[REDACTED]** confidence and risk appetites, the fund-raising activities of issuers and proposed **[REDACTED]** applicants, the macroeconomic condition as well as the financial conditions in Hong Kong. Our business operations, financial condition as well as our fund-raising activities as contemplated by this document may be materially and adversely affected as a result.

Foundation works expose us to the risk of unexpected geological or sub-soil conditions

Prior to commencement of our foundation works, our customers would normally provide us with ground investigation reports. However, information contained in these reports may not be sufficient to reveal the actual geology beneath the construction site due to limitation in the scope of the underground investigation works that can be carried out at the site and/or other technical limitations. There may be discrepancies between the actual geological conditions and the findings set out in these investigation reports, and the investigation may not be able to reveal the existence of rocks or to identify any antiquities, monuments or structures beneath the site. All these may eventually present potential issues and uncertainties in the carrying out of our foundation works, such as the possible increase in the complexity of the project resulting from additional work procedures, workers, equipment and time required to deal with any unexpected existence of rocks, antiquities or monuments, which may also lead to additional costs to be incurred. Pricing of our services is determined on a case-by-case basis having regard to various factors, which include our assessment of the complexity of the project having regard to all relevant information available to us, including the information contained in the ground investigation reports provided by our customers. In case of any significant unexpected difficult geological or sub-soil conditions, our Group may incur additional costs in dealing with such unforeseen conditions, which may lead to cost overruns and may thus materially and adversely affect our business operation and financial position.

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

Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain trades of works. For further details, please refer to the paragraph headed "Business – Our suppliers and subcontractors – Our subcontractors – Reasons for subcontracting arrangement" in this document. In order to control and ensure the quality and progress of the works of our subcontractors, our Group selects 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. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our subcontracting fees amounted to approximately HK$55.5 million, HK$102.2 million, HK$130.7 million and HK$49.9 million, respectively, representing approximately 44.2%, 50.6%, 43.2% and 29.5% of our total purchase, respectively. There is no assurance that the work quality of our subcontractors can always meet our requirements. We may not be able to monitor the performance of our subcontractors as directly and efficiently as with our own labour. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could impact upon our profitability, financial performance and reputation. In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

Our Group's pricing terms and gross profit margin may be affected by the pricing strategy of our competitors in the industry

According to the F&S Report, the foundation works subcontracting industry is fragmented. According to the Construction Industry Council, as of 21 May 2020, there were 373 foundation and piling subcontractors in Hong Kong. In light of the level of competition in the foundation works industry, our competitors may adopt a proactive pricing strategy in order to maintain or increase their market share. In particular, some of the other leading foundation works subcontractors in Hong Kong have experienced a deterioration in their profitability. Depending on the pricing strategy of our competitors, we may face certain downward pricing pressure as a result of possible price competition, thereby lowering our gross profit margin. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our Group recorded gross profit margin of approximately 11.4%, 12.2%, 12.9% and 12.9%, respectively. Our Group's gross profit margin during the Track Record Period was on average higher than some of the other leading foundation works subcontractors in Hong Kong by revenue in 2019 based on their respective published financial information. There is no assurance that we will be able to maintain our gross profit margin and/or uphold our pricing strategy in the future. Our inability to adjust our pricing in response to the changes in pricing strategy of our competitors or fierce market competition may hinder our ability to obtain new projects and materially and adversely affect our profitability, results of operations and business prospects.

Our Group is dependent on key personnel and there is no assurance that our Group can retain them

Our Directors believe that our success, to a large extent, is attributable to, among other things, the contribution of Mr. Yip and Ms. Kwan, each being our executive Director. Details of their expertise and experience are set out in the section headed "Directors and senior management" in this document. Our key personnel as well as their management experience in the foundation industry in Hong Kong are crucial to our operation and financial performance. Although we have entered into a service agreement with each of our executive Directors, there could be an adverse impact on our operation should any of our executive Directors terminate his or her service agreement with us or otherwise cease to serve our Group and appropriate persons could not be found to replace them. There is no assurance that we will be able to attract and retain capable staff in the future. In such event, the business and financial position and prospects of our Group could be materially and adversely affected.

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

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

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

We recorded negative cash and cash equivalents as at 31 March 2018

We recorded negative cash and cash equivalents of approximately HK$2.2 million as at 31 March 2018 which was mainly attributable to the bank overdrafts of approximately HK$4.4 million as at 31 March 2018 that was utilised for our Group's purchase of items of property, plant and equipment and advances to a director. Please refer to the paragraph headed "Financial information – Liquidity and capital resources – Cash flows" in this document for further information. Our future liquidity will primarily depend on our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate external financing. We cannot guarantee that we will be able to maintain a positive cash and cash equivalents position in the future. If we do not generate sufficient cash flow from our operations to meet present and future financial needs, we may need to rely on additional external financing for funds. We cannot assure you that we will be able to successfully obtain external financing on commercially acceptable terms in a timely manner, or at all. If adequate funds are not available, we may need to reduce the scale of our operations, and our business, financial condition and operating results may be materially and adversely affected.

We recorded net cash flows used in operating activities for the five months ended 31 August 2020

Our net cash flows used in operating activities for the five months ended 31 August 2020 was mainly resulted from (i) the increase in contract assets and trade receivables in relation to the substantial amount of foundation works we had performed for our Group's ongoing projects as well as certain new projects that commenced works during the five months ended 31 August 2020; and (ii) the Hong Kong profits tax paid; which was partly offset by (iii) the increase in trade and retention payables; and (iv) the depreciation of property, plant and equipment. For further details, please refer to the sections headed "Financial information – Liquidity and capital resources" and "Financial Information – Liquidity and capital resources – Cash flows – Cash flows from operating activities" in this document. We cannot guarantee that we will be able to generate positive cash flows from operating activities in the future. In particular, we cannot predict the amount and timing of billing to or receipts from our customers for our contract assets and trade receivables. Net cash flows used in operating activities may materially and adversely affect our liquidity and financial conditions, and hence may require us to obtain sufficient external financing to meet our financial needs and obligations. If we rely on external financing to generate additional cash, we will incur financing costs and we cannot assure you that we will be able to obtain external financing on terms acceptable to us, or at all.

There is no assurance that we will be able to renew our registration under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council

Kwong Luen Engineering, our principal operating subsidiary, has registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. Subcontractors engaged under public sector projects initiated by the Government, such as Housing Authority and CEDD, are required to possess registration under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. Renewal of registration under the Registered Specialist Trade Contractors Scheme is required every three or five years and is generally subject to certain technical and relevant industry experience requirements. There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, our reputation, our ability to obtain future businesses, and our business and financial position and prospects could be materially and adversely affected.

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

We may be involved in claims and litigations in respect of various matters from our customers, subcontractors, workers and other parties concerned with our works from time to time. Such claims may include in particular employees' compensation claims and personal injury claims in relation to personal injuries suffered by workers as a result of accidents arising out of and in the course of employment of the injured workers. During the Track Record Period and up to the Latest Practicable Date, we recorded seven accidents involving our employees and/or employee of our subcontractor which gave rise or may give rise to potential employees' compensation claims and/or personal injury claims. Please refer to the paragraph headed "Business – Litigations and potential claims" in this document for further information.

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

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

Our insurance coverage may not be adequate to cover potential liabilities

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

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

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

Our profitability may be affected by the potential increase in depreciation expenses and staff costs upon our planned acquisition of additional machinery and our planned recruitment of additional staff

It is one of our business strategies to acquire additional machinery by utilising a portion of the **[REDACTED]** from the **[REDACTED]** so as to cope with our business development, increase our overall efficiency, capacity and technical capability in performing foundation works as well as our ability to cater for different needs and requirements of different customers. Please refer to the section headed "Future plans and **[REDACTED]**" for details of the types of machinery to be purchased. Please also refer to the paragraph headed "Business – Machinery and motor vehicles" in this document for details of our existing machinery.

As a result of the purchase of additional machinery, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and operating results. Based on the accounting policies adopted by our Group, depreciation on machinery is calculated using the straight-line method. Therefore, it is estimated that additional depreciation expenses on plant and machinery of approximately HK$5.2 million will be incurred per annum after we have acquired all the machinery that we intend to purchase under our business expansion plan.

In addition to the acquisition of additional machinery, our business strategies also include the recruitment of additional staff by utilising a portion of the **[REDACTED]** from the **[REDACTED]** so as to cope with our business development. Please refer to the section headed

"Future plans and **[REDACTED]**" in this document for details of the additional staff that we plan to employ by functions. Based on the intended timing of deployment of the **[REDACTED]** for recruitment and retention of all the additional staff, it is estimated that additional staff costs of approximately nil and HK$10.8 million will be incurred for FY2020/21 and FY2021/22, respectively.

Our planned investments in machinery and labour resources will increase our costs (including depreciation expenses and staff costs) but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. Should we be unable to obtain more projects and increase our profitability after such planned investments, our business and financial position and prospects may be adversely affected.

Possible difficulty in recruiting sufficient labour may hinder our future business strategies

It is one of our business strategies to expand our labour resources by recruiting additional staff in order to cope with our business development and our planned purchases of additional machinery. Please refer to the section headed "Future plans and **[REDACTED]**" in this document for details of the additional staff that we plan to employ by functions. However, the foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce, as further discussed in the paragraph headed "Risks relating to the industry in which we operate – The foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce" in this section. As a result, there may be potential difficulties for us to recruit sufficient labour for the implementation of our future business strategies. Any material difficulties in recruiting sufficient labour for the implementation of our future business strategies may adversely affect our Group's ability to successfully grow our business, which may in turn adversely affect our business and financial position and prospects.

Our business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget

We intend to further enhance our machinery, strengthen our manpower, increase our capital reserve for financing our project up-front costs and invest in hardware device and computer software in order to cope with the expected increase in demand for our services. However, our plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We operate in a competitive industry

Some of our competitors may have certain advantages, including but not limited to having long operating history, better financing capabilities and well developed technical expertise. New participants may wish to enter the industry provided that they have the appropriate skills, local experience, necessary machinery and equipment, capital and they are granted the requisite licences or approvals by the relevant regulatory bodies. Any significant increase in competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

The foundation industry in Hong Kong has been facing the problem of labour shortage and ageing workforce

According to the F&S Report, the Hong Kong foundation industry has been facing the problem of labour shortage and aging workforce. This led to the range of average daily wages of workers engaged in engineering works, such as concretor, drainlayer, bar bender and fixer, and structural steel erector, having increased from approximately HK$1,268 to HK$1,729 in 2014 to approximately HK$1,508 to HK$2,297 in 2019, representing a CAGR of approximately 0.4% to 5.9%. For further information regarding the problem of labour shortage and aging workforce faced by the foundation industry in Hong Kong, please refer to the paragraph headed "Industry overview – Price trend of major cost components" in this document.

The supply and cost of labour in Hong Kong are affected by the availability of labour in the market as well as economic factors in Hong Kong including the inflation rate and standard of living. There is no guarantee that the supply of labour and labour costs will be stable and that our Group will be able to identify and recruit staff members in replacement in a timely manner, failing which there could be an adverse effect on our Group's operation.

In addition, the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) requires that an employee is entitled to be paid wages in respect of any wage period of not less than the minimum wage, which shall be derived by reference to the prescribed minimum hourly wage rate (currently set at HK$37.5 per hour). Although none of our employees were paid at the current statutory minimum wage of HK$37.5 per hour or lower as at the Latest Practicable Date as confirmed by our Directors, there is no assurance that the statutory minimum wage will not increase in the future.

In the event that we fail to retain our existing labour and/or recruit sufficient labour in a timely manner to cope with the demand of our existing or future jobs and/or there is a significant increase in the costs of labour, we may not be able to complete our jobs on schedule and/or within budget and our operations and profitability may be adversely affected.

Rising construction costs, including the costs of construction workers and construction materials, may increase our costs of operation

According to the F&S Report, the foundation industry in Hong Kong has been facing the problem of increasing operating costs. The increase in operating costs is mainly attributed to the wage trend of construction workers (as discussed above) as well as the prices of certain construction materials, such as concrete blocks, steel plates, steel angles, steel flats and steel bars, which are typically required in carrying out foundation works. For further details of the past price trend of such construction materials, please refer to the paragraph headed "Industry overview – Price trend of major cost components" in this document. Any substantial increase in our costs of operation may materially and adversely affect our business and financial positions and prospects.

Construction works are usually divided into various different trades. Each trade requires specialised labour of its own and cannot be easily replaced by labour of another trade. The fees charged by our subcontractors depend on a number of factors, which generally include their own costs of operation. Industrial action of any trade may disrupt our operation and/or the operation of our customers and/or subcontractors and thus the work progress of projects undertaken by us. There is no assurance that trade unions will not launch any industrial actions or strikes to demand for higher wages and/or shorter working hours in the future. If their demands are to be met, we may incur additional direct staff costs, subcontracting fees and/or experience delay in the completion of our projects where our customers may in turn claim against us for not being able to meet the time schedule requirements of the contracts. Therefore, if labour costs and costs of construction materials in Hong Kong keep increasing, our staff costs and subcontracting fees may increase in the future, which could materially and adversely affect our business operation and financial condition.

Personal injuries, property damages or fatal accidents may occur at work sites

Notwithstanding our occupational health and safety measures that are required to be followed by employees of our Group and our subcontractors, accidents leading to personal injuries, property damages and/or fatal accidents remain an inherent risk at work sites. There is no assurance that there will not be any violation of our safety measures or other related rules and regulations by the employees of our Group or our subcontractors. Any such violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at work sites, which may materially and adversely affect our business operations as well as our financial position to the extent not covered by insurance policies. Also, failure to maintain safe construction sites and/or to implement safety management measures resulting in the occurrence of serious personal injuries or fatal accidents may lead to the non-renewal of our registration under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council.

In addition, any personal injuries and/or fatal accidents to the employees of our Group and our subcontractors may lead to claims or other legal proceedings against our Group. Any such claims or legal proceedings could adversely and materially affect our financial position to the extent not covered by insurance policies. Also, notwithstanding the merits of any such claims or legal proceedings, we need to divert management resources and incur extra costs to handle these matters. Any such claims or legal proceedings could therefore have a material and adverse impact on our business operations.

There is no assurance that we can comply with the proposed Security of Payment Legislation

The Development Bureau of the Government is currently proceeding legislative work on the proposed Security of Payment Legislation ("**SOPL**") for the construction industry that aims to improve payment terms and payment delays, encourage rapid dispute resolution and increase cash flow of operators in the construction industry. Under the proposed SOPL, parties undertaking construction activities or providing related services, materials and plant shall be entitled to claim progress payments based on the value of their work, services or supply every calendar month. Payment of an amount due must be made within 60 calendar days of an interim progress payment claim being made or within 120 calendar days for a final progress payment claim. Any provision in a construction contract purporting to impose "pay when paid" or "pay when certified" clauses or otherwise unfair payment terms that would violate parties' rights to progress payments shall be deemed ineffective and unenforceable. When the SOPL comes into force, it will apply to all our public sector projects and private sector projects with main contract value over a prescribed amount as well as all their subcontracts (irrespective of tier). For further details, please refer to the paragraph headed "Regulatory overview – F. Legislation expecting to come into force which may relate to our business" in this document.

There is no clear and definite timeframe on when the proposed SOPL will come into force. Since there are uncertainties on the final legislative framework to be submitted to the Legislative Council for consideration and approval, we cannot assure you that the final SOPL will not impose more stringent requirements on the payment practice in the construction industry than the current proposal.

We have not adopted any "pay when paid" policy with our suppliers and subcontractors during the Track Record Period and up to the Latest Practicable Date. Our suppliers and subcontractors generally granted us a credit term of 14 to 60 days. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our trade payables turnover days was 13.5 days, 17.9 days, 17.4 days and 15.0 days, respectively, which fall within the credit term granted to us by our suppliers. Nevertheless, we cannot guarantee that our payment practice with our suppliers will be able to fulfil the requirements of the SOPL by the time it comes into force. In the event that we fail to comply with the SOPL, we may face potential claims from our suppliers and subcontractors and our business operation could be materially and adversely affected.

Any future changes in existing laws, regulations and Government policies, including but not limited to the introduction of more stringent laws and regulations on licensing, environmental protection, labour safety, etc. may cause us to incur substantial additional expenditure

Many aspects of our business operation are governed by various laws and regulations and Government policies. There is no assurance that we will be able to respond to any such changes in a timely manner. Such changes may also increase our costs and burden in complying with them, which may materially and adversely affect our business, financial condition and results of operation. If there are any changes to and/or imposition of the requirements for qualification in the foundation industry in relation to environmental protection and labour safety, and we fail to meet the new requirements in a timely manner or at all, our business operation will be materially and adversely affected.

RISKS RELATING TO THE [REDACTED]

[REDACTED] will experience immediate dilution

Given the **[REDACTED]** of our Shares is higher than the combined net tangible assets per Share immediately prior to the **[REDACTED]**, **[REDACTED]** of our Shares in the **[REDACTED]** will experience an immediate dilution in the unaudited **[REDACTED]** adjusted combined net tangible assets value to approximately HK$**[REDACTED]** per Share and HK$**[REDACTED]** per Share, respectively, based on the indicative **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**.

There has been no prior [REDACTED] for the Share and the liquidity, [REDACTED] and trading volume of the Share may be volatile

Prior to the **[REDACTED]**, there is no **[REDACTED]** for the Shares. The **[REDACTED]** of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active **[REDACTED]** or the sustainability thereof following completion of the **[REDACTED]**. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or our competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation or fluctuations in the **[REDACTED]** for the services provided or supplies required by our Group, the liquidity of the market for the Shares, and the general market sentiment regarding the construction industry in Hong Kong could cause the **[REDACTED]** and trading volume of the Shares to change substantially. In addition, both the **[REDACTED]** and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, **[REDACTED]** may not be able to sell their Shares at or above the **[REDACTED]** or at all.

Granting options under the Share Option Scheme may affect our Group's results of operation and dilute Shareholders' percentage of ownership

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this document.

Any disposal by our Controlling Shareholders of a substantial number of Shares in the [REDACTED] could materially and adversely affect the [REDACTED] of the Shares

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the **[REDACTED]**. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the **[REDACTED]** of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing **[REDACTED]** of the Shares.

The [REDACTED] is entitled to terminate the [REDACTED]

Prospective **[REDACTED]** should note that the **[REDACTED]** (for itself and on behalf of other **[REDACTED]**) is entitled to terminate its obligations under the **[REDACTED]** by giving notice in writing to us upon the occurrence of any of the events set out in the paragraph headed "**[REDACTED]** – Grounds for termination" in this document at any time prior to 8:00 a.m. (Hong Kong time) on the **[REDACTED]**. Such event may include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out.

The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders

Upon completion of the **[REDACTED]**, our Controlling Shareholders will own **[REDACTED]** of our Shares. Our Controlling Shareholders will therefore, have a significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporation actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders may be adversely affected as a result.

Future issues, offers or sales of Shares may adversely affect the prevailing [REDACTED] of the Shares

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issue or sale may occur, may negatively impact the prevailing **[REDACTED]** of the Shares. We cannot give any assurance that such event will not occur in the future.

There can be no assurance that we will declare or distribute any dividend in the future

Subject to the Companies Law and the Articles, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay to our Shareholders such interim dividends as appear to our Board to be justified by the financial conditions and the profits of our Company, and may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant by our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

RISKS RELATING TO THIS DOCUMENT

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

Certain facts, statistics, and data presented in the section headed "Industry overview" and elsewhere in this document relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by the Government departments or independent third parties. In addition, certain information and statistics set forth in that section have been extracted from a market research report commissioned by us and prepared by F&S, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry related sources in this document. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sponsor, nor any parties involved in the **[REDACTED]** have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources were prepared on a comparable basis or that such information and statistics were stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications.

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

Included in this document are various forward-looking statements that are based on various assumptions. Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking statements" in this document. **[REDACTED]** should read this entire document carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the **[REDACTED]** including, in particular, any financial projections, valuations or other forward-looking statements.

Prior to the publication of this document, there may be press or other media which contains information referring to us and the **[REDACTED]** that is not set out in this document. We wish to emphasise to potential **[REDACTED]** that neither we nor any of the Sponsor, the **[REDACTED]**, the **[REDACTED]** and the **[REDACTED]**, or the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the "**Professional Parties**") involved in the **[REDACTED]** has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this document or is inconsistent or conflicts with the information contained in this document, we disclaim any responsibility and liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective **[REDACTED]** should not rely on any such information in making your decision as to whether to **[REDACTED]** in the **[REDACTED]**. You should rely only on the information contained in this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. YIP Kwong Cheung (葉廣祥)	Flat 7, 14/F Block A New Town Mansion Tuen Mun New Territories Hong Kong	Chinese
Ms. KWAN Chui Ling (關翠玲)	Flat 7, 14/F Block A New Town Mansion Tuen Mun New Territories Hong Kong	Chinese
Independent non-executive Directors		
Ms. CHENG Shing Yan (鄭承欣)	Flat A, 40/F Block 4 Beverly Garden Tseung Kwan O Hong Kong	Chinese
Mr. WONG Yiu Kit Ernest (黃耀傑)	Room E, 28/F Block 15 Yee Wan Court, South Horizons 15 South Horizon Drive Ap Lei Chau Hong Kong	Chinese
Mr. TANG Sher Kin (鄧社堅)	Flat C, 27/F Tower 1 The Beaumount II 6 Shek Kok Road Tseung Kwan O Hong Kong	Chinese

For further information on our Directors, please refer to the section headed "Directors and senior management" in this document.

PARTIES INVOLVED

Sponsor	**Grande Capital Limited** *A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities* Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong

[REDACTED]

Legal advisers to our Company	*As to Hong Kong law* **Cheung & Choy** Suites 3804–5, 38/F Central Plaza 18 Harbour Road Wanchai Hong Kong
	As to Hong Kong law **Mr. Chan Chung** Barrister-at-law of Hong Kong 10/F, Grand Building 15–18 Connaught Road Central Central Hong Kong
	As to Cayman Islands law **Appleby** Suites 4201–03 & 12 42/F, One Island East Taikoo Place 18 Westlands Road Quarry Bay, Hong Kong

Legal advisers to the Sponsor, the [REDACTED], the [REDACTED] and the [REDACTED]	*As to Hong Kong law* **[REDACTED]**
Reporting accountants and auditors	**Ernst & Young** *Certified Public Accountants* 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Compliance adviser	**Grande Capital Limited** Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong
Industry consultant	**Frost & Sullivan Limited** Suite 1706, One Exchange Square 8 Connaught Place Hong Kong

[REDACTED]

CORPORATE INFORMATION

Registered office	71 Fort Street PO Box 500 George Town Grand Cayman KY1-1106 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit 2515, 25/F, The Octagon 6 Sha Tsui Road Tsuen Wan New Territories Hong Kong
Authorised representatives	Mr. YIP Kwong Cheung (葉廣祥) Flat 7, 14/F Block A New Town Mansion Tuen Mun New Territories Hong Kong Mr. WONG Ho Cheung (黃浩璋) *(Certified Public Accountant)* Flat 2411 Fung Wo House Wo Che Estate, Sha Tin New Territories Hong Kong
Company secretary	Mr. WONG Ho Cheung (黃浩璋) *(Certified Public Accountant)* Flat 2411 Fung Wo House Wo Che Estate, Sha Tin New Territories Hong Kong
Audit Committee	Ms. CHENG Shing Yan (鄭承欣) *(Chairlady)* Mr. WONG Yiu Kit Ernest (黃耀傑) Mr. TANG Sher Kin (鄧社堅)
Remuneration Committee	Mr. WONG Yiu Kit Ernest (黃耀傑) *(Chairman)* Mr. YIP Kwong Cheung (葉廣祥) Ms. CHENG Shing Yan (鄭承欣)

Nomination Committee	Mr. YIP Kwong Cheung (葉廣祥) *(Chairman)* Ms. CHENG Shing Yan (鄭承欣) Mr. TANG Sher Kin (鄧社堅)

[REDACTED]

[REDACTED]

Principal bank	**The Hongkong and Shanghai Banking Corporation Limited** 1 Queens' Road Central Hong Kong
Company website	**www.kwong-luen.com.hk** *(information on this website does not form part of this document)*

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepare by Frost & Sullivan, an independent market research agency. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, such information and statistics have not been independently verified by us, the Sponsor, the **[REDACTED]***, the* **[REDACTED]***, any of the* **[REDACTED]***, our or their respective directors and officers or any other parties involved in the* **[REDACTED]** *(which for the purpose of this paragraph, excludes Frost & Sullivan). No representation is given as to the accuracy or completeness of such information and statistics.*

SOURCE AND RELIABILITY OF INFORMATION

Our Group commissioned Frost & Sullivan, an independent market search company to conduct an analysis of, and to report on, the foundation industry in Hong Kong. A total fee of HK$330,000 was charged by Frost & Sullivan for the preparation of the Frost & Sullivan Report. The Frost & Sullivan Report has been prepared by Frost & Sullivan independent of our Group's influence. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Frost & Sullivan Report. The payment of such amount was not conditional on our Group's successful **[REDACTED]** or on the results of the Frost & Sullivan Report.

Frost & Sullivan is an independent global consulting firm founded in 1961, and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries.

The Frost & Sullivan Report includes information on the foundation industry in Hong Kong. The information contained in the Frost & Sullivan Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders including but not limited to foundation works service providers and industry experts in Hong Kong.

Information gathered by Frost & Sullivan has been analysed, assessed and validated using Frost & Sullivan in-house analysis models and techniques. According to Frost & Sullivan, this methodology ensures a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy. All statistics are based on information available as at the date of the Frost & Sullivan Report. Other sources of information, including the Government, trade association or market place participants, may have provided some of the information on which the analysis or data is based.

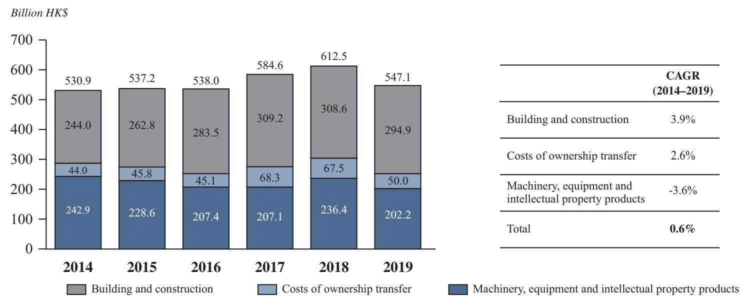
Save for the foreseeable impact of adverse event such as outbreak of COVID-19, Frost & Sullivan developed its estimates or forecast on the following principal bases and assumptions: (i) it is assumed that the global economy remains a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or natural disaster which affects the demand and supply of the foundation industry in Hong Kong during the forecast period.

MACRO ECONOMY OVERVIEW

Gross Domestic Fixed Capital Formation Value

The total gross value of fixed capital formation in Hong Kong has registered an increase from 2014 to 2019, with a CAGR of approximately 0.6%, among which building and construction experienced a moderate growth of CAGR approximately 3.9%. Hong Kong's property market is driven by market sentiment, which is affected by the global macroeconomic prospects as the Hong Kong's economy is highly dependent on the financial markets and active real estate investments. The potential impact of Sino-US trade conflict has given rise to uncertainty of the economy and therefore led to the decrease in real estate investment and gross domestic fixed capital formation value. The decline in 2019 is due to the domestic economic downturn caused by the Sino-US trade conflict, as well as the political instability in Hong Kong.

Gross Domestic Fixed Capital Formation Value (Hong Kong), 2014–2019



	CAGR (2014–2019)
Building and construction	3.9%
Costs of ownership transfer	2.6%
Machinery, equipment and intellectual property products	-3.6%
Total	**0.6%**

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

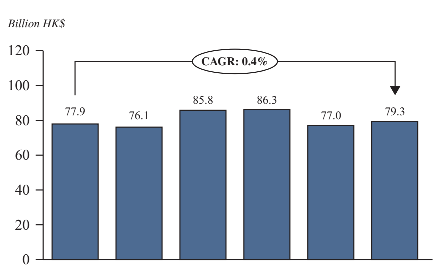
Note: Gross domestic fixed capital formation covers the gross value of investment expenditure on building and construction as well as machinery, equipment and intellectual property products (including computer software, databases and research and development); and costs of ownership transfer.

Government Expenditure on Infrastructure Development and Capital Works Reserve Fund

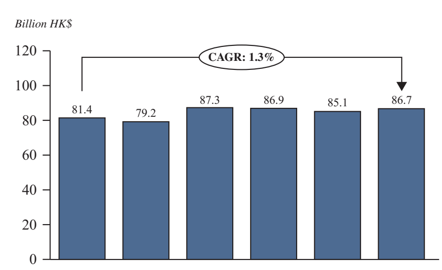
The Government expenditure on infrastructure development has remained steady from approximately HK$77.9 billion in 2014 to approximately HK$79.3 billion in 2019, representing a CAGR of approximately 0.4%. The major infrastructure development projects, such as Shatin to Central Link, Hong Kong-Zhuhai-Macao Bridge and Kai Tak Development, contributes to the steady Government expenditure on infrastructure development annually.

Driven by the strong demand for infrastructure development in Hong Kong, the capital works reserve fund has also remained steady from approximately HK$81.4 billion in 2014 to approximately HK$86.7 billion in 2019, with a CAGR of approximately 1.3%. The building works are highly correlated with the infrastructure development. With the steady investment in infrastructure development, high level of foundation works would be performed in the construction of infrastructure developments regularly.

Government Budget – Expenditure on Infrastructure Development (Hong Kong), 2014–2019



Capital Works Reserve Fund (Hong Kong), 2014–2019



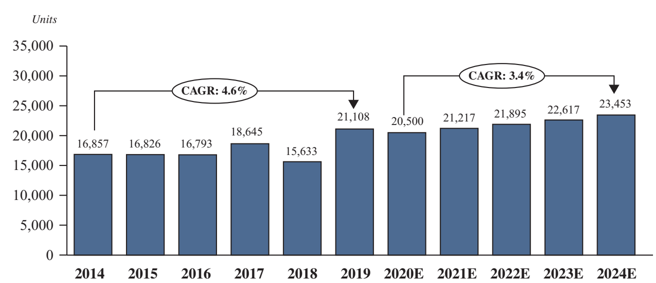
Source: *Census and Statistics Department of Hong Kong, Frost & Sullivan*

Note: Year indicates the respective fiscal year of Hong Kong government, e.g. 2014 refers to the fiscal year of 2014/2015.

Number of Private Domestic Primary Sales of Residential Flats

Private domestic primary sales of residential flats in Hong Kong are influenced mainly by the Government policy and land supply. Number of private domestic primary sales of residential flats increased at a CAGR of approximately 4.6% from 16,857 units in 2014 to 21,108 units in 2019, representing the healthy development of the property market in Hong Kong. With a slower economic growth and rising uncertainties amid the Sino-US trade conflicts, home buyers in general are becoming more cautious, which led to the decrease in number of primary sales of residential flats in 2018. The number of primary sales of some residential flats increased as some property developers lowered the price to boost the sales in 2019. According to the Government, it is expected that in aggregate more than 38,000 units of private residential housing will be released in 2020 and 2021. To address housing affordability, the Government unveiled a package of measures in 2019 and increased the amount the first-time homebuyers can borrow for a mortgage under a Government-backed insurance program, allowing the first-time homebuyers to borrow as much as 90% of a property's value up to a maximum of HK$8 million. Together with the rising population, the relaxation of mortgage cap for the first-time homebuyers would translate into the growing market opportunities for the property market and drive the private domestic primary sales of residential flats in Hong Kong which is expected to grow at a CAGR of approximately 3.4% from 2020 to 2024.

Number of Private Domestic Primary Sales of Residential Flats (Hong Kong), 2014–2024E



Source: Rating and Valuation Department of Hong Kong, Frost & Sullivan

CONSTRUCTION WORKS INDUSTRY OVERVIEW

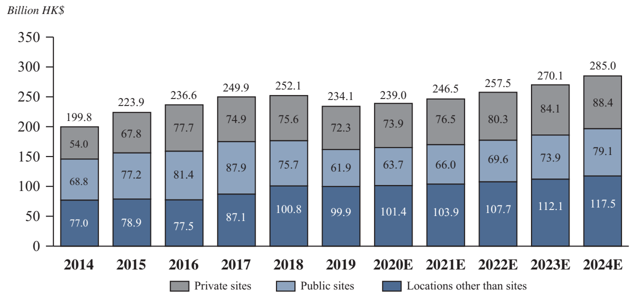
Gross Value of Construction Works Performed

Driven by the large-scale public development projects, the gross value of construction works performed by main contractors has recorded a steady growth. From 2014 to 2019, the gross value of construction works performed by main contractors has increased from approximately HK$199.8 billion in 2014 to approximately HK$234.1 billion in 2019, representing a CAGR of approximately 3.2%.

In addition to slower building works of fitting-out, repair and maintenance in the private sector, spending by the public sector also shrank as the implementation of new projects was affected by the delay in the Legislative Council's approval of funding proposals, and new projects had yet to generate sufficient output to offset the completion of some major infrastructure projects, which in turn led to the decrease in gross value of construction works in 2019. The construction industry in Hong Kong was negatively affected as some of the construction contractors have encountered interruptions in the supply of construction materials and difficulty in labour deployment in the first quarter of 2020 due to the COVID-19 outbreak resulting in delay in the building schedules of some construction projects. Given the recent recovery and resumption of global business operations, the building works in Hong Kong are expected to slow down in only short-to-mid-term, with an expected decrease in gross value of construction works in 2020.

Going forward, as the Government is determined to increase the housing supply and community facilities, the gross value of construction works performed by main contractors is expected to attain approximately HK$285.0 billion by the end of 2024, representing a CAGR of approximately 4.5% from 2020 to 2024.

Gross Value of Construction Works Performed by Main Contractors (Hong Kong), 2014–2024E



	CAGR (2014–2019)	CAGR (2020E–2024E)
Private sites	6.0%	4.6%
Public sites	-2.1%	5.6%
Locations other than sites	5.3%	3.8%
Total	**3.2%**	**4.5%**

Note: According to the Census and Statistics Department, the gross value of construction works performed in locations other than sites generally refer to general trades (including decoration, repair and maintenance, and construction works at minor work locations such as site investigation, demolition, and structural alteration and addition works) and special trades (including carpentry, electrical equipment, ventilation, gas and water fitting installation and maintenance etc).

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

Value Chain Analysis

The value chain of foundation works comprises upstream raw materials and equipment suppliers, midstream contractors and engineering consultants and downstream clients such as Government authorities, property developers and property owners. For foundation works projects, project owners, such as property developers and Government authorities, generally invite tender from service providers, including contractors and engineering consultants.

Tendering is a common practice for property developers, main contractors and Government to identify suitable subcontractors for certain area of construction works and these clients may have their own tender lists with preferred subcontractors based on business relationship, track record, ability in handling large-scale projects under tight schedules as well as financial and manpower capacity. The property developers may have their own main contractor subsidiary and subcontract the administration works to a few subcontractors to oversee the works of subcontractors at lower tiers in large-scale projects.

Multi-level of subcontracting is commonly practised in the foundation industry. Some subcontractors are only held responsible for the overall project management and general administrative works of the projects. Being equipped with relevant industry expertise in certain aspects, subcontractors are able to deploy the manpower in a more cost-effective manner, thus having greater flexibility in cost control and capital management. Also, having a fleet of self-owned machinery and equipment is considered to be a competitive edge in capturing tender invitations from property developers and/or construction contractors.

Main contracts are entered into between project owners, usually Government authorities or property developers, and main contractors, pursuant to which the said main contractor shall be responsible for providing services in connection with construction works within a specific timeframe in accordance with the terms and conditions thereof.

FOUNDATION INDUSTRY OVERVIEW

Definition and Segmentation

Foundation work is the engineering process to construct a structure that transfer the load from superstructure to the soil. Foundation can be further classified as shallow and deep foundation, depending on the depth of load-transfer from the structure to the ground. According to the Civil Engineering and Development Department ("**CEDD**"), a shallow foundation generally refers to one in which the depth to the bottom of the foundation is less than or equal to its least dimension. On the other hand, deep foundations usually refer to piles installed at depths and are pre-manufactured and inserted into the ground by driving, jacking or other methods, or cast-in-place in a shaft formed in the ground by boring or excavation.

- Site formation works is the preparation of land in order to accommodate buildings or other facilities which will be placed within the area, including but not limited to forming the land to the required orientation, level or shape, and providing other temporary or permanent supporting services.

- Excavation and lateral support works ("**ELS works**") involves loosening and taking materials out of the ground and then shoring up support in the excavated area with piles. During the process, the sides of the sites require proper support and ground water control, so as to prepare a larger and safer space for construction. It is increasingly common for project owners and/or main contractors to require foundation work contractors to perform comprehensive ELS works using the top-down method. Owing to the technical know-how and expertise involved, only a limited number of foundation work contractors are capable of carrying out ELS works using the top-down method in Hong Kong. Under the top-down method, the first level of soil excavation is performed to make room for the construction of ground floor slab which serves as lateral support to the substructure walls. After the ground floor slab is completed, the superstructure work of the buildings can be performed at the same time as further excavation for the basement continues. This top-down method increases the flexibility and efficiency in the planning and implementation of construction developments, particularly those involving high-rise buildings, as it allows both substructure and superstructure works to be carried out simultaneously.

- Pile cap construction is the process of constructing a pile cap, which create a stable and larger foundation for the transmission and distribution of the structure load onto the pile or group of piles.

- Piling construction refers to the construction and installation of piles, which refers to the structural beams typically made of steel, concrete or timber, and are used to transfer the structure load to the foundation at a greater depth where the capacity of soil is sufficient to withhold the load, thus increasing the safety of construction and occupancy of the structure.

- Underground drainage works refers to repair, addition, alteration, and removal of underground drainage systems.

- Earthworks are engineering works created through the processing of parts of the earth's surface involving quantities of soil or unformed rock.

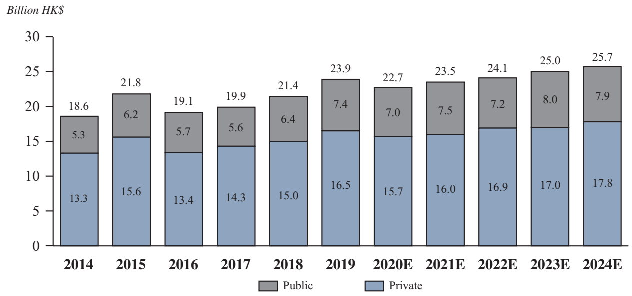
Market Size

The gross value of foundation works registered an overall growth from approximately HK$18.6 billion in 2014 to approximately HK$23.9 billion in 2019, representing a CAGR of approximately 5.1%. While there was a decrease in real estate investment and gross domestic fixed capital formation value amid the social unrest in the second half of 2019, there was no material impact on the existing foundation works market as the projects under development were still ongoing and the impact on the foundation works market was likely temporary as more construction developments are expected to resume or proceed to more advanced stage while the social unrest wanes. Market demand for foundation works is highly dependent on the commencement of development projects and construction works. The robust growth was mainly attributable to the expedited housing development and the healthy growth of construction industry in Hong Kong as a whole.

Attributable to the planned infrastructure development projects, the increase of land supply and the expected number of new private residential buildings to be completed, the gross value of foundation works is anticipated to increase at a CAGR of approximately 3.2% for the next five years, reaching approximately HK$25.7 billion in 2024.

Specifically, the private sector of foundation works in Hong Kong increased from approximately HK$13.3 billion in 2014 to approximately HK$16.5 billion in 2019, at a CAGR of approximately 6.9%. In view of rising private residential housing supply, the private sector of foundation works in Hong Kong would maintain its growth at a CAGR of approximately 3.1% from 2020 to 2024.

Gross Value of Foundation Works (Hong Kong), 2014–2024E

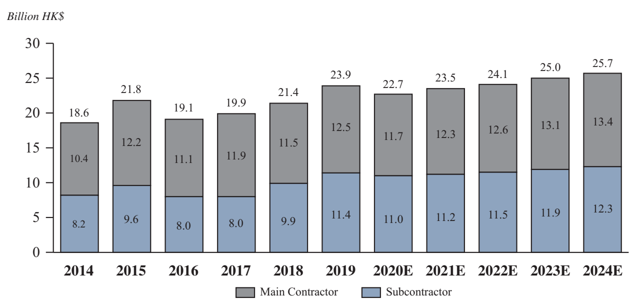


	CAGR (2014–2019)	CAGR (2020E–2024E)
Private	6.9%	3.1%
Public	4.4%	3.2%
Total	**5.1%**	**3.2%**

Source: Frost & Sullivan

The gross value of foundation works performed by main contractor increased from approximately HK$10.4 billion in 2014 to approximately HK$12.5 billion in 2019, at a CAGR of 3.7%. The gross value of foundation works performed by subcontractors also recorded an increase from approximately HK$8.2 billion in 2014 to approximately HK$11.4 billion in 2019, representing a CAGR of 6.8%. Following the growth of the overall foundation works, the main contractor and subcontractor segment would increase at a CAGR of 3.4% and 2.8% respectively from 2020 to 2024.

Gross Value of Foundation Works by Main Contractors and Subcontractors (Hong Kong), 2014–2024E



	CAGR (2014–2019)	CAGR (2020E–2024E)
Main Contractor	3.7%	3.4%
Subcontractor	6.8%	2.8%
Total	**5.1%**	**3.2%**

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

Note: The gross value of foundation works performed by subcontractors is subject to the effect of double-counting as subcontractors may further sub-contract their construction works. Thus such figures only serve to provide a broad indication of the extent of sub-contracting in the construction industry and should be interpreted with care.

The construction industry and foundation industry in Hong Kong was negatively affected as some of the construction contractors have encountered interruptions in the supply of construction materials and difficulty in labour deployment in the first quarter of 2020 due to the COVID-19 outbreak resulting in delay in the building schedules of some construction projects. However, the outbreak of COVID-19 is expected to have limited impact on the demand for Hong Kong's foundation industry in the long run due to the fact that the proposed works schedule of the general construction works in Hong Kong, ranging from roads, housings, shopping malls and offices, which are currently in the pipeline to be built in the following years will unlikely be affected.

Despite the limited impact resulting from the COVID-19 outbreak as mentioned above, it is expected that there will not be material delay or suspension of construction activities in the long run as a result of the COVID-19 outbreak, considering the major construction projects in the pipeline are ongoing as planned. As set out in the 2020–21 Land Sale Programme, 15 residential sites would provide about 7,530 flats, and 6 commercial sites which can provide about 833,700 square metres of gross floor area. The new development area projects, such as Kwu Tung North/Fanling North new development, Hung Shui Kiu/Ha Tsuen new development area and Yuen Long South development, are undergoing at the moment. In view of the dampened consumer sentiment by the global outbreak of COVID-19, the Government has established the Anti-epidemic Fund to support businesses in Hong Kong to cope with the pandemic and relieve their financial burdens amid the subdued economic prospect in Hong Kong. An aggregate amount of approximately HK$5 billion of the Anti-epidemic Fund has been approved by the Legislative Council Financial Committee to disburse subsidies and assist the construction industry to overcome the current financial challenge. According to the Construction Industry Council, more than 530,000 employees and 30,000 construction companies will benefit from the Anti-epidemic Fund.

Since June 2019, there have been a series of public assemblies and protests across various districts in Hong Kong, raising uncertainty over the economy in Hong Kong. The social unrest in Hong Kong adversely impacted the retail and tourism industry as some of the retail stores and restaurants are closed and usually experience a decrease in customer traffic flow during the protests. Alongside with the decrease in number of visitors due to the COVID-19 outbreak, the prospects of tourism industry in Hong Kong remain uncertain in the short run, accelerating the downward spiral for the retail market and the sentiment for real estate investment in the short run, which in turn led to the decrease in gross domestic fixed capital formation value and gross value of construction works in 2019 in Hong Kong. The occurrence and duration of such public assemblies and protests cannot be predicted or controlled. If such protests and demonstration persist for a prolonged period of time or that the economic, political and social conditions in Hong Kong are to be materially deteriorated, the sentiment for real estate investment and gross value of construction works may continue to be adversely affected.

Despite the COVID-19 outbreak may continue until the launch of COVID-19 vaccine, the increasing public health awareness and social distancing measures, have been proved to be effective in combating COVID-19 in countries such as the PRC, UK and Spain. Frost & Sullivan is of the view that the COVID-19 would be effectively controlled in the long run. Hence the outbreak of COVID-19 is expected to cause a short-term economic slowdown but may not affect the market in Hong Kong in the long run. On the other hand, there is no large-scale public assemblies and protests in Hong Kong since the first quarter of 2020 and there are no signs that the social unrest would continue to affect the Hong Kong economy. Frost & Sullivan remains positive to the growth in construction and foundation works market in Hong Kong.

MARKET DRIVERS AND OPPORTUNITIES

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

1. Rising Land Supply

Given the high demand for the development of residential buildings, the Government has established several policies to raise the supply of land for the coming years, according to the Policy Address 2019. Moreover, the Government has simplified and accelerated the process of changing land use, which could lead to increase of land supply in Hong Kong more efficiently in short term. On the other hand, the new development area projects, such as Kwu Tung North/Fanling North new development areas, Hung Shui Kiu/Ha Tsuen new development area and Yuen Long South development, are undergoing at the moment and they will approximately release more than 1,200ha of lands to the market in Hong Kong in the future. The promotion of land supply in Hong Kong in coming years is expected to positively drive the demand for foundation works.

2. Expedited Private Residential Development

Faced with the imbalance between demand and supply of housing market in Hong Kong, the Government has been launching policies to simplify and speed up the process of land planning and development, as well as studying the possibility of increasing land supply through changing land uses and exploring new development areas. As set out in the 2020–21 Land Sale Programme, 15 residential sites would provide about 7,530 flats, and six commercial sites which can provide about 833,700 square metres of gross floor area. Apart from the 15 sites for sale, railway property development projects will continue to contribute to the private housing land supply in 2020–21. The property development projects of the MTR Corporation Limited at Wong Chuk Hang Station and LOHAS Park are estimated to provide a total of 4,050 flats. According to the Development Bureau, the total potential private housing land supply in 2020–21 is estimated to have a capacity to produce about 15,730 flats in Hong Kong. The private residential projects are expected to underpin the needs for foundation works.

3. Urban Renewal Projects

The Urban Renewal Authority, a statutory body responsible for accelerating the redevelopment of buildings in Hong Kong, has been initiating multiple urban renewal projects since its establishment in 2001. According to the Urban Renewal Authority, there will be more than 326,000 residential apartments that are at least aged 70 years above by year 2046. Various projects are undertaken in different areas, notably the large-scale projects such as Kwun Tong Town Centre Project involves more than 53,000 square meter area. It is therefore anticipated that there will be an increasing presence of foundation works contractors in the urban renewal projects.

4. Rapid Development of Infrastructure

The Government has invested billions of Hong Kong dollars for infrastructure development in order to maintain the competitiveness and quality of living of the city. According to the 2020–21 Budget, the annual capital works expenditure will reach approximately HK$100 billion on average, with the annual total construction output reaching HK$300 billion. The highlighted large-scale infrastructural projects include Lok Ma Chau Loop Development, and site formation works and infrastructure works for public housing development at Wang Chau, Pok Fu Lam South and Yau Tong. Several projects are under planning by CEDD, such as Kai Tak development – remaining infrastructure works for developments at the former runway and south apron, Kai Tak development – Kai Tak approach channel and Kwun Tong typhoon shelter improvement works (Phase 2), Development at Anderson Road, Tseung Kwan O further development – infrastructure works for Tseung Kwan O Stage I Landfill site, Tseung Kwan O, and Cycle Tracks Connecting North West New Territories with North East New Territories. The Government has also promoted the mixed use of the Government land with budget of HK$22 billion, such as the construction of joint-user buildings for community facilities at the former Anderson Road Quarry site, Tseung Kwan O town centre and Shan Mei Street in Shatin. These infrastructure works are expected to increase the demand for foundation works in the coming future in Hong Kong.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

Competition Overview

According to the Buildings Department, as of 17 February 2021, the number of registered specialist contractors for foundation works amounts to 152. Large scale players within the foundation industry are usually main contractors with proven track record and sufficient capital who are on the tender list of major property developers and the Government. The main contractors would further subcontract parts of the project to specialists like site formation works, ELS works, pile cap construction and piling construction to enable effective resource deployment. The foundation works subcontracting industry is more fragmented. Subcontractors usually do not directly compete with main contractors in foundation industry in Hong Kong. According to the Construction Industry Council, as of 17 February 2021, there were 414 foundation and piling subcontractors in Hong Kong.

Multilayer of subcontracting is the common practice in the construction industry in Hong Kong, particularly in sizeable development projects, given the manpower and machinery required and the specialised divisions of works involved. Established foundation works subcontractors specialising in a certain aspect of foundation works maintain close relationships with main contractors so as to guarantee stable sources of projects.

During the long-term cooperation with customers, contractors have performed continuous foundation works as valued business partners. Some foundation works contractors have served the same customer for over 5 years. With previous project reference, the foundation works contractors have built up stable working relationship with the customers and able to provide customisation services and applied experience for managing the foundation works projects. This kind of partnership have developed, to a certain degree, a mutual reliance and benefit in terms of cost effectiveness and service quality. Therefore, customer concentration in the foundation industry is an industry norm.

Ranking and Market Share of Leading Foundation Works Subcontractors by Revenue (Hong Kong), 2019

Rank	Company	Estimated Revenue *HK$'million*	Approximate Market Share	Company Description
1	Company A	509.3	2.1%	A listed company engaged in foundation works services in Hong Kong
2	Company B	468.2	2.0%	A listed company engaged in foundation works services in Hong Kong
3	Company C	452.6	1.9%	A listed company engaged in foundation works and other ancillary services in Hong Kong
4	Our Group	404.8	1.7%	A foundation works subcontractor in Hong Kong with focus on ELS works and other associated works including pile cap construction, underground drainage works and site formation works
5	Company D	393.9	1.6%	A listed company engaged in foundation works and other general building works services in Hong Kong

Source: Frost & Sullivan

Notes:

1. The ranking is calculated based on the revenue generated for the year ended 31 March 2020.
2. The revenues were compiled by Frost & Sullivan from the available information in the public domain, trade interviews and fieldworks conducted.
3. Company A, B, C and D are able to perform foundation works by using the top-down method. Only sizable contractors could apply the top-down method in the foundation works industry in Hong Kong.
4. The ranking is computed based on public information and does not include foundation works subcontractors that were not listed in the Stock Exchange due to lack of public information.

Other Key Active Foundation Works Subcontractors in Hong Kong

There were a number of active key foundation works subcontractors which are private limited companies in Hong Kong. While there is no accurate and reliable source of information from the public domain to compile the market share and ranking of these active key market players, their background information are set out in the table below:

Company	Background
Company E (being Customer A of our Group)	Found in 1996, being an approved subcontractor of a leading property developer in Hong Kong
Company F	Found in 2002, being experienced in undertaking foundation works for infrastructure developments such as railway projects
Company G	Found in 1983, being registered on the Register of General Building Contractors and Specialist Contractors (Sub-register of Foundation Works Category)
Company H	Found in 1995, being registered on the Register of Specialist Contractors (Sub-register of Foundation Works Category), the Register of Specialist Contractors (Sub-register of Site Formation Works Category) and the Register of Minor Works Contractors (Company)

Our Group's Market Share and Ranking

Our Group was the fourth largest foundation works subcontractors by revenue in foundation works in 2019 in Hong Kong, which represented approximately 1.7% of the total market share.

Entry Barriers

1. High capital requirement

It is important for foundation works contractors to possess a strong startup capital for equipment purchasing, and maintain a strong operating cash flow. Purchase of a fleet of self-owned major machinery and construction equipment, including excavators, loaders, crawler cranes and bending machines, requires a large amount of capital expenditure. In particular, environmental compliance status is becoming one of the major criterion in tender assessment for construction projects in both private and public sectors. It is increasingly common for main contractors to encourage subcontractors at all tiers to deploy machinery which comply with recognised environmental standards such as the Quality Powered Mechanical Equipment label issued by the Environmental Protection Department and the emission levels prescribed under the NRMM Regulation. Further, foundation works contractors generally experience net cash outflows as project up-front costs at the preliminary stage of a project. The project up-front costs incurred by a foundation works contractor generally include but not limited to payment to material suppliers and subcontractors. The robust capital requirement therefore acts as one of the entry barriers of foundation industry in Hong Kong.

2. Good relationship with property developers and supervising contractors

Good relationship with property developers and supervising contractors is also important to the success of market players. Only the leading foundation works contractor are on the tender list of major property developers and supervising contractors while many small foundations works contractors cannot even get tender invitation of such contracting projects. The proven track record, ability to take bulk orders within a short period of time, strong cash flow and sufficient manpower make the large-scale foundation works contractors the first choice to property developers and supervising contractors. New entrants are therefore expected to face challenges in knitting such working relationship.

3. Proven track record

Proven track record is the key competitive factor in the foundation industry. Credible track record for quality of works, efficient division of labour, timely delivery within budget control are the critical metrics for the companies to perform foundation works. Property developers and supervising contractors in Hong Kong prefer working with foundation works contractors who have proven record of relevant project experiences. New entrants without sound reputation built on the past collaboration with the industry stakeholders and experience in delivering foundation works would compromise a company's overall competitiveness in the foundation industry.

Potential Challenges

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

1. Labour shortage

The shortage of workers in Hong Kong construction industry is one of the major challenges to the foundation industry. There are insufficient experienced and skilled construction workers due to ageing working population. According to the Hong Kong Construction Association, as of 2020, approximately 40% of the workers are over the age of 50. More youngsters are joining the construction industry in Hong Kong in recent years, with the majority of trainees aged under 35, but many do not take up employment in the construction industry after they complete their training. As such, the impact is short-lived and labour shortage may remain going forward. The lack of youngsters joining the construction industry would result in a more serious labour shortage issue in mid-to-long term and hence hindering the overall development of the foundation industry.

2. *Rise in operating cost*

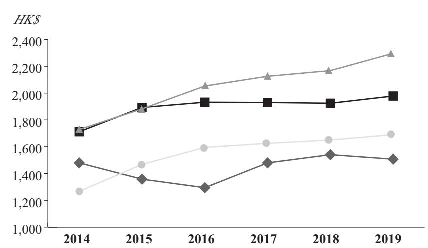
In order to attract younger work force, the foundation work contractors have raised the salaries of front-line workers. According to the Census and Statistics Department, the average daily wages of workers engaged in engineering works, including concretor, drainlayer, bar bender and fixer, and structural steel erector have all recorded a rise from 2014 to 2019. A continuously rising operating costs potentially translates into a lower profit margin of the company.

PRICE TREND OF MAJOR COST COMPONENTS

Average Wages of Foundation Industry

According to the Census and Statistics Department, the average daily wages of workers engaged in engineering works, including concretor, drainlayer, bar bender and fixer, and structural steel erector have all recorded a rise from 2014 to 2019. Among which, the wages of drainlayer, bar bender and fixer have the highest rising rate at a CAGR of approximately 5.9%. Increase in average daily wages translates into a higher operating costs for foundation works contractors in Hong Kong.

Average Daily Wages of Workers Engaged in Engineering Works (Hong Kong), 2014–2019



	2014	2015	2016	2017	2018	2019
Concretor	1,712.0	1,893.3	1,932.5	1,930.4	1,924.7	1,978.7
Drainlayer	1,268.0	1,468.7	1,595.7	1,625.7	1,650.6	1,690.4
Bar bender and fixer	1,728.9	1,882.9	2,053.3	2,126.0	2,168.3	2,297.4
Structural steel erector	1,479.9	1,358.6	1,294.9	1,480.1	1,541.1	1,507.6

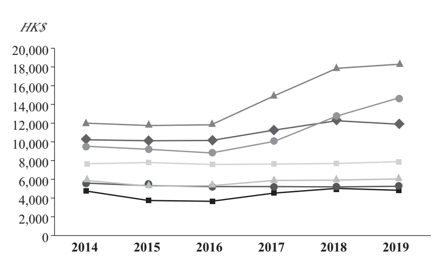
Occupation	CAGR (2014–2019)
Concretor	2.90%
Drainlayer	5.90%
Bar bender and fixer	5.90%
Structural steel erector	0.40%

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

Price Trends of Foundation Works Materials

Major raw materials in foundation works include concrete blocks, steel plates, steel angles, steel flats, steel bars and uPVC pipes. According to the Census and Statistics Department, excluding uPVC pipes, all of the related construction materials have recorded a rise during 2014 to 2019, CAGRs ranging from approximately 0.3% to approximately 9.1%. Steel plates and steel angles have recorded the highest growth rate during the period, with CAGRs of approximately 9.1% and approximately 8.8% during 2014 to 2019 respectively. uPVC pipes have recorded a decline in price from approximately HK$5,600 per 100 units in 2014 to HK$5,266.7 per 100 units in 2019, representing a negative CAGR of approximately 1.2% during 2014 to 2019.

Price of Major Raw Materials in Foundation Works (Hong Kong), 2014–2019



	2014	2015	2016	2017	2018	2019
Concrete blocks, 100mm thick (100 units)	7,666.7	7,800.0	7,600.0	7,633.3	7,700.0	7,900.0
Steel plates (per tonne)	9,539.7	9,210.3	8,827.3	10,053.3	12,761.0	14,721.3
Steel angles (per tonne)	12,006.3	11,751.0	11,831.0	14,913.7	17,859.3	18,299.7
Steel flats (per tonne)	10,232.0	10,126.3	10,153.7	11,263.0	12,263.3	11,887.3
Mild steel round bars, 6mm to 20mm	5,888.7	5,280.3	5,328.0	5,888.7	5,926.0	6,053.7
High tensile steel bars, 10mm to 40mm	4,760.3	3,747.3	3,663.7	4,536.7	5,041.0	4,833.3
uPVC pipes (100 units)	5,600.0	5,333.3	5,233.3	5,233.3	5,200.0	5,266.7

Raw Materials	CAGR (2014–2019)
Concrete blocks, 100mm thick (100 units)	0.6%
Steel plates (per tonne)	9.1%
Steel angles (per tonne)	8.8%
Steel flats (per tonne)	3.0%
Mild steel round bars, 6mm to 20mm	1.3%
High tensile steel bars, 10mm to 40mm	0.3%
uPVC pipes (100 units)	-1.2%

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

The following is a brief summary of the laws and regulations in Hong Kong that currently materially affect our business. The principal objective of this summary is to provide potential **[REDACTED]** *with an overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all laws and regulations applicable to our business and operations which may be important to potential* **[REDACTED]**. **[REDACTED]** *should note that the following summary is based on the laws and regulations in force as of the date of this document, which may be subject to change.*

A. LABOUR, HEALTH AND SAFETY

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

Under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) (the "**Factories and Industrial Undertakings Ordinance**"), it is the duty of a proprietor of an industrial undertaking (namely the person or body corporate having the management or control of the business carried on in an industrial undertaking including construction work) to ensure, as far as is reasonably practicable, the health and safety at work of all persons employed by it at the industrial undertaking. The duties of an industrial undertaking proprietor include:

(i) providing and maintaining plant and work systems that do not endanger safety or health;

(ii) making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;

(iii) providing all necessary information, instructions, training and supervision for ensuring safety and health;

(iv) providing and maintaining safe access to and egress from the workplaces; and

(v) providing and maintaining a safe and healthy working environment.

A proprietor of an industrial undertaking who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK$500,000 and to imprisonment for 6 months.

Section 6BA of the Factories and Industrial Undertakings Ordinance also provides that, every proprietor shall not employ at the undertaking a relevant person who has not been issued a relevant safety training certificate or whose relevant certificate has expired. Members of our project team, which will usually be formed to administer and supervise the project once a contract is awarded, are also required to carry with them the relevant valid safety training certificate. A proprietor who contravenes the foregoing commits an offence and is liable to a fine at level 5 (currently fixed at HK$50,000).

Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong), Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the Laws of Hong Kong)

Under the Factories and Industrial Undertakings Ordinance, there are subsidiary regulations covering various aspects of work activities in factories, buildings, engineering construction sites and other industrial workplaces. The subsidiary regulations prescribe detailed safety and health standards on work situations, plant and machinery, processes and substances. Subsidiary regulations which are relevant to our Group's operations include but are not limited to:

– the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong) provides for, among other things, (i) the prohibition of employment of persons under 18 years of age on construction sites (save for certain exceptions); (ii) maintenance and operation of construction plant (including any plant, equipment, gear, machinery, apparatus, or appliance, or any part thereof) used or intended to be used for the purpose of construction work; (iii) the duty of a contractor responsible for a construction site to ensure the safety of the place of construction work; (iv) the duty of a contractor responsible for a construction site to take adequate steps to prevent falls; (v) provision of first aid facilities; and (vi) other miscellaneous safety requirements. Contravening any of these rules shall be an offence and a contractor committing the relevant offence without reasonable excuse could be liable to a fine of HK$200,000 and to imprisonment for 12 months.

– pursuant to the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59AF of the Laws of Hong Kong), a proprietor or a contractor have various duties, including (i) attending to the development, implementation and maintenance of a safety management system; (ii) attending to the preparation and revision of safety policy; (iii) attending to the establishment of safety committee; and (iv) attending to the appointment of registered safety auditor to conduct safety audit. A contravention of any of these prescribed duties shall constitute an offence punishable by a fine of HK$200,000 and to imprisonment for 6 months.

– under the Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the Laws of Hong Kong), the owner of lifting appliances and lifting gear is required to ensure that (i) all lifting appliances shall be of good mechanical construction and free from patent defects; (ii) all lifting appliances be properly maintained; (iii) the arrangements for fixing and anchoring the appliance are adequate to secure its safety; and (iv) the lifting appliances are adequately and securely supported. Failure to comply with such requirement constitutes an offence and such person shall be liable to a fine of HK$200,000.

In relation to our foundation works, we have set up an occupational health and safety system to promote safe working practices among all employees and to prevent the occurrence of accidents. For details, please refer to the paragraph headed "Business – Occupational health and work safety" in this document.

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

We are subject to the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) (the "**Occupational Safety and Health Ordinance**"). Our management team is responsible for providing safety and health protection to our employees in workplaces, both industrial and non-industrial in accordance with the Occupational Safety and Health Ordinance. Employers must as far as reasonably practicable ensure the safety and health in their workplaces by (i) providing and maintaining plant and work systems that do not endanger safety or health; (ii) making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances; (iii) providing all necessary information, instruction, training, and supervision for ensuring safety and health; (iv) providing and maintaining safe access to and egress from the workplaces; and (v) providing and maintaining a safe and healthy work environment. Failure to comply with the above provisions constitutes an offence in which the employer is liable on conviction to a fine of HK$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK$200,000 and to imprisonment for 6 months.

The Commissioner for Labour may also, at his discretion, issue improvement notices against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity of workplace which may create imminent hazard to the employees. Failure to comply with any such notices constitutes an offence punishable by a fine of HK$200,000 and HK$500,000 respectively and to imprisonment for 12 months.

In relation to our foundation works, we have set up an occupational health and safety system to promote safe working practices among all employees and to prevent the occurrence of accidents. For details, please refer to the paragraph headed "Business – Occupational health and work safety" in this document.

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

Under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "**Employees' Compensation Ordinance**"), if an employee sustains an injury or dies as a result of an accident arising out of and in the course of employment, the employer is generally liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. If an employee suffers incapacity or dies as a result of an occupational disease arising out of and in the course of employment, the employee is entitled to receive the same compensation as that payable to an employee injured in an occupation accident.

According to section 15 of the Employees' Compensation Ordinance, an employer must notify the Commissioner for Labour of a work accident by submitting a designated form within 14 days and 7 days (from the date of accident or the date which the employer has knowledge thereof, whichever earlier) for general work accidents and fatal accidents respectively. The employer must submit such form irrespective of whether the accident gives rise to any liability for the employer to pay compensation.

Additionally, pursuant to section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to the employees of its subcontractors who are injured in accidents arising out of and in the course of employment with the subcontractor. However, a principal contractor is entitled to be indemnified for such compensation by any person who would have been liable to pay compensation to the injured employee.

Under section 40 of the Employees' Compensation Ordinance, all employers, including contractors and subcontractors, are required to take out insurance policies to cover their liabilities in respect of injuries of all employees, including full-time and part-time, from accidents arising out of and in the course of employment. Where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount no less than HK$200 million per event to cover its liability and that of its subcontractor(s) under the Employees' Compensation Ordinance and at common law. An employer who fails to secure an insurance cover shall be liable on conviction to a fine at level 6 (currently fixed at HK$100,000) and to imprisonment for 2 years.

We undertook projects in the role of subcontractor during the Track Record Period. Our Directors confirm that our foundation works were generally covered by the employees' compensation insurance taken out by the main contractors for the entire construction projects. We have also maintained employees' compensation insurance for our office staff. Please refer to the paragraph headed "Business – Insurance" in this document for further details of our insurance coverage.

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

Section 43C of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "**Employment Ordinance**") provides that if any wages become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. However, a principal contractor's liability shall be limited to (i) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of such work; and (ii) the wages due to such employee for 2 months without any deductions (being the first 2 months of the period in respect of which the wages are due).

Any employee who has outstanding wage payments from a subcontractor must serve a notice in writing on the principal contractor generally within 60 days after the wage due date. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of its subcontractor if that employee fails to serve such notice. Where applicable, within 14 days of receipt of such notice, the principal contractor shall serve a copy of the notice on every superior subcontractor to that subcontractor of whom it is aware, failing which the principal contractor shall be liable on conviction to a fine at level 5 (currently fixed at HK$50,000).

Additionally, under section 43F of the Employment Ordinance, if a principal contractor or superior contractor pays to an employee any wages under section 43C of the Employment Ordinance, such wages shall be a debt due by the employer of that employee to the principal contractor or superior contractor, as the case may be. The principal contractor or superior contractor may either (i) claim contribution from every superior subcontractor to the indebted employer or from the principal contractor and every superior subcontractor to the indebted employer, as the case may be; or (ii) deduct by way of set-off the amount paid by it from any sum due or may become due to the indebted employer in respect of the work to whom it has been subcontracted.

Our Directors confirm that there was no overdue outstanding wage payment owing to our employees as at the Latest Practicable Date.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person or business occupying or having control of the premises on which injury resulting to persons or damage has been caused to goods or other property lawfully on the premises.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of a premises to take such care so as to ensure that any person will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

We undertook projects in the role of subcontractor during the Track Record Period. Our Directors confirm that our foundation works were generally covered by the third party liability insurance and contractors' all risks insurance taken out by the main contractors for the entire construction projects. We have also maintained employees' compensation insurance for our office staff. Please refer to the paragraph headed "Business – Insurance" in this document for further details of our insurance coverage.

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

The Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) (the "**Construction Workers Registration Ordinance**") provides, among others, for registration and regulation of construction workers. The principal objective of the Construction Workers Registration Ordinance is to establish a system for registration of construction workers and to regulate construction workers who personally carry out construction work on construction sites.

Pursuant to section 3 of the Construction Workers Registration Ordinance, a person shall not personally carry out on a construction site construction work unless the person is a registered construction worker. Further, section 5 of the Construction Workers Registration Ordinance provides that no person shall employ unregistered construction workers to carry out on construction sites construction work. A person who contravenes section 5 of the Construction Workers Registration Ordinance commits an offence and is liable on conviction to a fine at level 5 (currently fixed at HK$50,000).

The Construction Workers Registration Ordinance also contains a "designated workers for designated skills" provision, which provides that only registered skilled or semi-skilled workers of designated trade divisions are permitted to carry out construction works on construction sites relating to those trade divisions independently. Unregistered skilled or semi-skilled workers are only allowed to carry out construction works of designated trade divisions (i) under the instruction and supervision of registered skilled or semi-skilled workers of relevant designated trade division(s); (ii) in proposed emergency works (i.e. construction works which are made/maintained consequential upon the occurrence of emergency incidents); or (iii) in small scale construction works (e.g. value of works not exceeding HK$100,000).

Stage 1 of the "designated workers for designated skills" provision, of which "designated works" will include construction, re-construction, addition, alternation and building services works, has been implemented on 1 April 2017. Pursuant to stage 1 of the "designated workers for designated skills" provision of the Construction Workers Registration Ordinance, registered skilled and semi-skilled workers for designated trade divisions shall be included as registered construction workers of the Register of Construction Workers, and accordingly, subcontractors of construction sites are required to employ only registered skilled and semi-skilled workers for designated trade divisions to carry out construction works on construction sites relating to those trade divisions independently.

As at the Latest Practicable Date, our Directors confirm that all our site staff were registered as registered construction workers under the Construction Workers Registration Ordinance.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) (the "**Minimum Wage Ordinance**") provides for a prescribed minimum hourly wage rate (currently set at HK$37.5 per hour) during the wage period for every employee engaged under a contract of employment (as defined under the Employment Ordinance). Under the

Minimum Wage Ordinance, any provision of an employment contract which purports to extinguish or reduce any right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Our Directors confirm that none of our employees were paid at below the current statutory minimum wage as at the Latest Practicable Date.

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

Pursuant to section 38A of the Immigration Ordinance (Chapter 115 of the Laws of Hong Kong) (the "**Immigration Ordinance**"), a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

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

Our Directors confirm that (i) we had not employed any illegal immigrants or any illegal workers who are not lawfully employable in Hong Kong; and (ii) our Group had not been subject to any prosecution or legal action under the Immigration Ordinance during the Track Record Period and up to the Latest Practicable Date.

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

The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "**Mandatory Provident Fund Schemes Ordinance**") provides for, inter alia, the establishment of a system of privately managed, employment-related mandatory provident fund schemes for members of the workforce to accrue financial benefits for retirement. Under the Mandatory Provident Fund Schemes Ordinance, the employer and its relevant employee of 18 years of age or over and below retirement age which is 65 years of age, are each required to make contributions to the plan at 5% of the relevant employees' relevant income, meaning any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance expressed in monetary terms, paid or payable by an employer to the relevant employee in consideration of his employment under his employment contract.

Industry schemes ("**Industry Schemes**") were established under the system under Mandatory Provident Fund Schemes Ordinance for employers in the construction and catering industries in view of the high labour mobility in these two industries, and the fact that most employees in these industries are "casual employees" whose employment is on a day-to-day basis or for a fixed period of less than 60 days. In the case of a casual employee who is a member of an industry scheme, the amount to be contributed by an employer or to be deducted from a relevant employee for a contribution period shall be determined by reference to a scale specified in an order of the Mandatory Provident Fund Schemes Authority. For the purpose of the Industry Schemes, the construction industry covers the following 8 major categories (i) foundation and associated works; (ii) civil engineering and associated works; (iii) demolition and structural alteration works; (iv) refurbishment and maintenance works; (v) general building construction works; (vi) fire services, mechanical, electrical and associated works; (vii) gas, plumbing, drainage and associated works; and (viii) interior fitting-out works.

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

Our Directors confirm that we had not been subject to any prosecution or legal action under the Mandatory Provident Fund Scheme Ordinance during the Track Record Period and up to the Latest Practicable Date.

Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)

The Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) (the "**Buildings Ordinance**") regulates the planning, design and construction of buildings and associated works. It provides that before the commencement of any building works (i) prior approval and consent from the Building Authority must be obtained; (ii) authorised persons, such as architects, engineers and surveyors registered under the Buildings Ordinance, must be appointed to coordinate the works, prepare and submit plans for the approval from the Building Authority; (iii) registered professionals must be appointed to design and supervise the works; and (iv) registered contractors must be appointed to carry out the works.

Section 14(1) of the Buildings Ordinance provides that no person shall commence or carry out any building works, without having obtained such prior approval and consent from the Building Authority and such proper appointments. According to section 41(3) of the Buildings Ordinance, building works (other than draining works, ground investigation in the scheduled areas, site formation works and minor works) in any building are exempt from the requirement for approval and consent from the Building Authority if the works do not involve the structure of the building. If the building works are within the purview of section 41(3) of the Buildings Ordinance, the works must also comply with the building standards specified in the relevant regulations empowered under the Buildings Ordinance. The Buildings Ordinance further requires that any authorised person of the buildings works must be appointed by the ultimate beneficiary of the works, the employer of the works or the contractor.

Under section 8B(2) of the Buildings Ordinance, an applicant for registration as a general building contractor or specialist contractor must satisfy the Building Authority on the following aspects (i) if it is a corporation, the adequacy of its management structure; (ii) the appropriate experience and qualifications of its personnel; (iii) its ability to have access to plant and resources; and (iv) the ability of the person appointed to act for the applicant for the purposes of the Buildings Ordinance to understand building works and street works through relevant experience and a general knowledge of the basic statutory requirements.

During the Track Record Period, we acted as a subcontractor for the foundation works projects in Hong Kong. As advised by the Legal Counsel, for any foundation works where an entity is involved as a subcontractor, if there is a registered general building contractor and/or a registered specialist contractor who is registered under the Buildings Ordinance to supervise the works and liaise with the Building Authority, the entity itself is not required to be such registered general building contractor and/or registered specialist contractor or to obtain any requisite licences, permits or approval for its operation and business except the business registration. During the Track Record Period and up to the Latest Practicable Date, given that the main contractors of our projects were the registered general building contractor and/or registered specialist contractor, our Group is not required to be registered under the Buildings Ordinance or to obtain any licences, permits or approval for its operations except the business registration.

B. ENVIRONMENTAL PROTECTION

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

The Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) (the "**Air Pollution Control Ordinance**") is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, particularly the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong), the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong) and the Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented.

NRMM Regulation

The NRMM Regulation came into effect on 1 June 2015 to introduce regulatory control on the emissions of NRMM, including non-road vehicles and regulated machines such as crawler cranes, generators, excavators and air compressors.

Unless exempted, NRMM which is regulated under this provision is required to comply with the emission standards prescribed under this regulation. From 1 September 2015, all regulated machines sold or leased for use in Hong Kong must be approved or exempted with a proper label in a prescribed format issued by the Environmental Protection Department pursuant to section 4 of the NRMM Regulation. Under section 5 of the NRMM Regulation, starting from 1 December 2015, only approved or exempted NRMM with a proper label is allowed to be used in specified activities and locations including construction sites. However, existing NRMM which is already in Hong Kong on or before 30 November 2015 will be exempted from complying with the emission requirements pursuant to section 11 of the NRMM Regulation.

Any person who sells or leases a regulated machine for use in Hong Kong, or uses a regulated machine in specified activities or locations without (a) exemption or the Environmental Protection Department's approval is liable to a fine of up to HK$200,000 and imprisonment for up to six months; and (b) a proper label is liable to a fine at level 5 (currently at HK$50,000) and imprisonment for up to three months.

On 8 February 2015, the Works Branch of Development Bureau issued the Technical Circular pursuant to which the Government has promulgated an implementation plan to phase out progressively the use of exempted NRMMs for four types of exempted NRMMs, namely generators, air compressors, excavators and crawler cranes in new capital works contracts of public works, including design and build contracts, tendered by main contractors with an estimated contract value exceeding HK$200 million as follows:

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

Notwithstanding the aforesaid phase out plan, exempted NRMMs may still be permitted at the discretion of the architect or engineer of public works contracts if there is no feasible alternative.

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

The Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) (the "**Noise Control Ordinance**") regulates, among others, the noise from construction activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Noise Control Authority in advance.

The carrying out of percussive piling is prohibited between 7:00 p.m. and 7:00 a.m. or at any time on general holidays. Construction works that use powered mechanical equipment (other than percussive piling) are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the Noise Control Authority through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Noise Control Authority. Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK$100,000 and on a second or subsequent convictions to a fine of HK$200,000, and in any case to a fine of HK$20,000 for each day during which the offence continues.

Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)

The Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) (the "**Water Pollution Control Ordinance**") controls the effluent discharged from all types of industrial, manufacturing, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the Director of Environmental Protection and must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent and the general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters.

According to the Water Pollution Control Ordinance, unless being licensed under the Water Pollution Control Ordinance, a person who discharges any waste or polluting matter into the waters or discharges any matter other than domestic sewage and unpolluted water, into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for up to 6 months and (i) for a first offence, a fine of HK$200,000; (ii) for a second or subsequent offence, a fine of HK$400,000, and in addition, if the offence is a continuing offence, to a fine of HK$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)

The Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) (the "**Waste Disposal Ordinance**") controls the production, storage, collection, treatment, recycling and disposal of wastes. At present, livestock waste, clinical waste and chemical waste are subject to specific controls whilst unlawful deposition of waste is prohibited.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, particularly the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong). A person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of the Environmental Protection. A person who except under and in accordance with a permit, does anything for which such a permit is required commits an offence and is liable to a fine of HK$200,000 and to imprisonment for 6 months for the first offence, and to a fine of HK$500,000 and to imprisonment for 6 months for a second or subsequent offence, and in addition, if the offence is a continuing offence, to a fine of HK$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)

Emission of dust from any building under construction or demolition in such manner as to be a nuisance is actionable under the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) (the "**Public Health and Municipal Services Ordinance**"). Maximum penalty is at level 3 (currently fixed at HK$10,000) upon conviction with a daily fine of HK$200.

Discharge of muddy water from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is at level 5 (currently fixed at HK$50,000) upon conviction.

Any accumulation of water on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is at level 4 (currently fixed at HK$25,000) upon conviction and a daily fine of HK$450.

Any accumulation of refuse which is a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is at level 3 (currently fixed at HK$10,000) upon conviction and a daily fine of HK$200.

Further, any premises in such a state as to be a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. Maximum penalty is at level 3 (currently fixed at HK$10,000) upon conviction and a daily fine of HK$200.

Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong)

The Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong) (the "**Environmental Impact Assessment Ordinance**") is to avoid, minimise and control the adverse environmental impacts from designated projects as specified in schedule 2 of the Environmental Impact Assessment Ordinance (examples of designated projects include public utility facilities, certain large scale industrial activities and community facilities) through the application of the environmental impact assessment process and the environmental permit system prior to their construction and operation (and decommissioning, if applicable), unless exempted.

According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (such as roads, railways and depots, residential and other developments) without an environmental permit for the project, or contrary to the conditions set out in the permit. The offender is liable (i) on a first conviction on indictment to a fine of HK$2,000,000 and to imprisonment for 6 months; (ii) on a second or subsequent conviction on indictment to a fine of HK$5,000,000 and to imprisonment for 2 years; (iii) on a first summary conviction to a fine at level 6 (currently fixed at HK$100,000) and to imprisonment for 6 months; (iv) on a second or subsequent summary conviction to a fine of HK$1,000,000 and to imprisonment for 1 year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK$10,000 for each day on which he is satisfied the offence continued.

As advised by the Legal Counsel, project owners such as developers and relevant government departments are generally responsible for the application of environmental permits for the projects.

We have established an environmental management system in conformance with ISO 14001 international standard to comply with the above regulations in relation to environmental protection. For details, please refer to the paragraph headed "Business – Environmental compliance" in this document.

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

C. CONSTRUCTION INDUSTRY LEVY

Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)

According to section 32 of the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) (the "**Construction Industry Council Ordinance**"), construction industry levy ("**levy**") is payable by registered contractors appointed under section 9 of the Buildings Ordinance or any persons who carry out construction operations in Hong Kong to the Construction Industry Council. 'Construction operation' is exhaustively defined under Schedule 1 of the Construction Industry Council Ordinance, which include building works and street works as defined in section 2(1) of the Buildings Ordinance.

The levy chargeable is 0.5% of the total value of the construction operation (as defined under section 53 of the Construction Industry Council Ordinance). Pursuant to section 32 and Schedule 5 of the Construction Industry Council Ordinance, no levy is chargeable for any construction operation not exceeding HK$3,000,000.

According to section 34 of the Construction Industry Council Ordinance, the contractor and authorized person each are required to inform the Construction Industry Council in a specified form (Form 1) in respect of the construction operations within 14 days after its commencement. It is an offence if a person without reasonable excuse failed to give such notice and liable to a fine at level 1 (currently fixed at HK$2,000). Notice is only required for term contract or if the reasonable estimation of the total value of construction operations exceeds HK$3,000,000.

Pursuant to section 35 of the Construction Industry Council Ordinance, a contractor is required to give a notice of payment in a specified form (Form 2) to the Construction Industry Council within 14 days after the contractor receives a payment in respect of the construction operation. It is an offence if a person without reasonable excuse fails to give the notice of payment and liable to a fine at level 3 (currently fixed at HK$10,000).

Pursuant to section 36 of the Construction Industry Council Ordinance, a contractor is required to give a notice of completion in a specified form (Form 3) to the Construction Industry Council within 14 days after the completion of the construction operation. It is an offence if a person without reasonable excuse fails to give the notice of completion and liable to a fine at level 3 (currently fixed at HK$10,000).

The Construction Industry Council shall assess the levy payable upon receiving the notice of payment or notice of completion and give a notice of assessment in writing specifying the amount of levy. The Construction Industry Council can also make the assessment notwithstanding no notice of payment or notice of completion has been given. According to section 41 of Construction Industry Council Ordinance, if a contractor fails to give notice of payment or notice of completion without a reasonable excuse, a surcharge not exceeding twice the amount of the levy payable may be imposed and a notice of surcharge in writing shall be given by the Construction Industry Council.

According to section 46 of the Construction Industry Council Ordinance, if the contractor fails to pay in full the amount of levy or surcharge within 28 days after the notice of assessment or notice of surcharge is given, a 5% penalty of the unpaid amount shall be imposed. If the contractor still fails to pay the unpaid amount within 3 months after the expiry of 28 days, a further 5% penalty of the unpaid amount shall be imposed.

Levy, surcharge, penalty or further penalty is recoverable by the Construction Industry Council as civil debt under the jurisdiction of the District Court. The time limits for the Construction Industry Council to make the assessment or imposing the surcharge under sections 42 to 45 of the Construction Industry Council Ordinance are, whichever is the last of the following periods:

(i) two years after the completion of all construction operation under the contract, or without term contract, 2 years after the completion of the construction operations;

(ii) two years after the expiry of the period within which the contract stipulates that all such construction operations have to be completed; and

(iii) one year after evidence, sufficient in the opinion of the Construction Industry Council to justify the making of the assessment, comes to its knowledge.

D. LICENSING/REGISTRATION REGIME

Registered Specialist Trade Contractors Scheme ("RSTCS")

To tender for and carry out capital works and maintenance works contracts in the public sector of Hong Kong, subcontractors shall be registered one or more of the 52 trades covering common structural, civil, finishing, electrical and mechanical works and supporting services under the Subcontractor Registration Scheme (the "**SRS**") of the Construction Industry Council. On 1 April 2019, the SRS was subsequently renamed as the Registered Specialist Trade Contractors Scheme ("**RSTCS**"), comprising two registers namely the Register of Specialist Trade Contractors (the "**RSTC**") and the Register of Subcontractors (the "**RS**"). As such, subcontractors may apply for registration on the RSTC in one or more of the seven designated trades including demolition, reinforcement bar fixing, erection of concrete precast component, concreting formwork, concreting, scaffolding and curtain wall. Subcontractors may also apply for registration on the RS in other common civil, building, electrical and mechanical trades.

The contractors registered under the RSTC are divided into two tiers: Group 1 Registered Specialist Trade Contractors ("**Group 1**") and Group 2 Registered Specialist Trade Contractors ("**Group 2**") respectively, based on the prescribed requirements for registration to the RSTC fulfilled by them. Tender limits will be imposed on tenders to be invited for subcontracts under public works on or after 1 October 2020 or any other date to be announced by the Development Bureau. There is no tender limit imposed for Group 2 but for Group 1, the tender limits imposed vary between different designated trade categories, examples of which are set out as follows:

(i) Concreting – contracts/subcontracts value up to HK$5 million;

(ii) Concreting formwork – contracts/subcontracts value up to HK$40 million; and

(iii) Reinforcement bar fixing – contracts/subcontracts value up to HK$20 million.

As at the Latest Practicable Date, Kwong Luen Engineering was the registered specialist trade contractor on the RSTC under the designated trade categories of (i) concreting (Group 1), (ii) concreting formwork (Group 1) and (iii) reinforcement bar fixing (Group 1) and the registered subcontractor on the RS under the category of general civil works with trade specialties of (i) earthwork and (ii) road drainage and sewer.

Requirements for registration under the RSTCS

For RSTC applicants, they shall satisfy the registration requirements under the five core elements of safety, management, job experiences, execution and finance. For details, please refer to the Rules and Procedures for the Register of Specialist Trade Contractors issued by the Construction Industry Council in April 2019.

As for RS applicants, they shall satisfy the registration requirements including completion of at least one job within the last five years, on the list of relevant Government registration schemes or possession of recognised personal qualification by the company proprietor, partner or director. For details, please refer to the Rules and Procedures for the Register of Subcontractors issued by the Construction Industry Council in April 2019.

Validity period and renewal of registration

A registered specialist trade contractor under the RSTC shall apply for renewal not earlier than six months before and not later than three months before the expiry date of its registration by submitting an application to the Construction Industry Council in a specified format providing information with supporting documents. An application for renewal shall be subject to approval by the committee of the Construction Industry Council. An approved renewal shall be valid for not less than 36 months after the date on which the committee of the Construction Industry Council approves the renewal of the current registration.

A registered subcontractor under the RS shall apply for renewal within three months before the expiry date of its registration by submitting an application to the Construction Industry Council in a specified format providing information with supporting documents. An application for renewal shall be subject to approval by the committee of the Construction Industry Council. An approved renewal shall be valid for three or five years from the expiry of the current registration.

Regulatory actions

A registered specialist trade contractor and a registered subcontractor shall observe and comply with the relevant codes of conduct issued by the Construction Industry Council, failing which the Committee on Registered Specialist Trade Contractors Scheme established by the Construction Industry Council may instigate regulatory actions against:

(i) a registered specialist trade contractor by directing that:

- written warning be given to the registered specialist trade contractor;
- the registered specialist trade contractor be suspended from registration for a specified period;
- the grouping of a registered specialist trade contractor be changed; or
- the registration of the registered specialist trade contractor be revoked.

(ii) a registered subcontractor by directing that:

- written strong direction and/or warning be given to a registered subcontractor;
- a registered subcontractor to submit an improvement plan with the contents as specified and within a specified period;
- a registered subcontractor be suspended from registration for a specified duration; or
- the registration of a registered subcontractor be revoked.

As advised by the Legal Counsel, there is no material legal impediment in the renewal of the above registrations by our Group as at the Latest Practicable Date. Our Directors confirm that we had not been subject to any regulatory action imposed by the Construction Industry Council during the Track Record Period and up to the Latest Practicable Date.

E. OTHER LAWS AND REGULATIONS RELEVANT TO OUR BUSINESS

Competition Ordinance (Chapter 619 of the Laws of Hong Kong)

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) (the "**Competition Ordinance**") came into force on 14 December 2015. It prohibits and deters undertakings in all sectors from adopting anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. Our Group is subject to the Competition Ordinance generally.

It provides for general prohibitions in three major areas of anti-competitive conduct described as the first conduct rule, the second conduct rule and the merger rule. The first conduct rule prohibits undertakings from making or giving effect to agreements or decisions or engaging in concerted practices that have as their object or effect the prevention, restriction or distortion of competition in Hong Kong. The second conduct rule prohibits undertakings that have a substantial degree of market power in a market from engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. The merger rule prohibits mergers that have or are likely to have the effect of substantially lessening competition in Hong Kong.

Penalties that the Competition Tribunal may impose for contraventions of a competition rule include pecuniary penalties, awards of damages, and interim injunctions during investigations or proceedings. The maximum penalty in relation to a "single contravention" can be up to 10% of the annual turnover obtained by the undertaking concerned in Hong Kong for each year the infringement lasted, with a maximum of 3 years. The Competition Tribunal may also order the disqualification of responsible directors for up to 5 years, award injunctions, declare agreements to be void, award damages, confiscate illegal profits, and order the payment of costs of the Competition Commission's investigation.

Our Directors confirm that we had not adopted any anti-competitive conduct described in the Competition Ordinance during the Track Record Period and up to the Latest Practicable Date.

F. LEGISLATION EXPECTING TO COME INTO FORCE WHICH MAY RELATE TO OUR BUSINESS

The proposed Security of Payment Legislation for the construction industry (the "proposed Security of Payment Legislation")

The Development Bureau of the Government launched the 3-month public consultation on 1 June 2015 for and is currently proceeding legislative work on the proposed Security of Payment Legislation for the construction industry that aims to improve payment terms and payment delays, encourage rapid dispute resolution and increase cash flow of operators in the construction industry. Under the proposed Security of Payment Legislation, contract parties have (i) the right to progress payments; (ii) the right to adjudication; and (iii) the right to suspend works for non-payment.

The proposed Security of Payment Legislation includes the following key obligations, rights and limits:

(i) All parties undertaking construction activities or providing related services, materials and plant shall be entitled to claim progress payments (which shall include single, interim and final progress payments) based on the value of their work, services or supply every calendar month. Payment of an amount due must be made within 60 calendar days of an interim progress payment claim being made or within 120 calendar days for a final progress payment claim.

(ii) Any provision in a construction contract purporting to impose "pay when paid" or "pay when certified" clauses or otherwise unfair payment terms that would violate parties' rights to progress payments shall be deemed ineffective and unenforceable.

(iii) The proposed Security of Payment Legislation would introduce adjudication as a means of resolving disputes relating to non-payment, value of works or extensions of time, allow parties to agree their own adjudicator, and impose a strict timetable upon the contractual parties to ensure adjudication is conducted quickly and cost-effectively. An adjudicator's decision can be filed directly in court for enforcement.

(iv) The proposed Security of Payment Legislation would provide parties with the right to suspend all or part of their works or to reduce the rate of progress in the event of non-payment and claim extension of time and costs, provided that notice is given to the principal contractor and site owner (if known).

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

The proposed Security of Payment Legislation will not apply retroactively but will apply only to contracts entered on or after a date to be set by or pursuant to the legislation. Our Directors are of the view that the proposed Security of Payment Legislation will (i) lessen delays in progress payments from our customers, which will improve our cash flow and financial performance; (ii) provide an effective adjudication framework to solve disputes that may arise between our Group and our customers in a timely and cost-efficient manner, which will reduce the costs and time expended by our Group in handling disputes; and (iii) lessen delays in performance by our Group that may arise as a result of non-payment or disputes throughout our supply chain, which will result in a reduction in disruptions in our Group's operations and delays in performing our project works. The proposed Security of Payment Legislation is not expected to materially affect our Group's payment to our suppliers and subcontractors and in turn our liquidity as (i) our Group's subcontractors generally will present application for payment as their progress payment at least once a month; (ii) our suppliers and subcontractors grant us a credit period of 14 to 60 days; (iii) we have not adopted any "pay when paid" policy with our suppliers and subcontractors; and (iv) our Group generally will settle the outstanding fees within the credit period. As such, the implementation of the proposed Security of Payment Legislation will not have any material effect as the proposed Security of Payment Legislation seeks to allow the contractual parties to have (i) the right to progress payments, (ii) the right to adjudication, and (iii) the right to suspend works for non-payment.

G. COMPLIANCE WITH THE RELEVANT REQUIREMENTS IN HONG KONG

So far as our Directors are aware, our Group has obtained all relevant licences/permits/registrations/approvals for our existing operations in Hong Kong and have complied with all applicable laws, rules and regulations to our business and operations in Hong Kong in all material aspects during the Track Record Period and up to the Latest Practicable Date.

OVERVIEW

Our Group principally engages in the provision of foundation services as a subcontractor in Hong Kong. The history of our Group can be traced back to 1995, when Mr. Yip contributed to the establishment of Kwong Luen Engineering, our Group's principal operating subsidiary, to provide foundation services such as ELS and other associated works including pile cap construction, underground drainage works and site formation works.

Mr. Yip had accumulated about 30 years of experience in the foundation industry and construction project management. Based on his years of practical experience, expertise and network in the foundation industry and being confident in the vast development potential and prospects of the construction industry in Hong Kong, Mr. Yip, together with an independent third party, established Kwong Luen Engineering.

Our Group endeavours to provide quality foundation services to our customers. As at the Latest Practicable Date, Kwong Luen Engineering is a registered specialist trade contractor and a registered subcontractor with the Construction Industry Council. Our Directors consider that we have successfully established a good reputation in the industry with our proven track record. Over the years, Kwong Luen Engineering has been working with several building contractors and foundation works contractors in Hong Kong as our major customers, and we have gained project exposure on sizeable projects in Hong Kong.

MILESTONES

The table below sets out the major developments and milestones of our Group:

Year	Event
1995	Kwong Luen Engineering was incorporated in Hong Kong on 25 May 1995.
1996	Our Group was engaged in the airport development in Chek Lap Kok, with an original contract sum of approximately HK$22.0 million.
1999	Our Group was engaged in the private residential estate development in Kennedy Town, with an original contract sum of approximately HK$19.2 million.

Year	Event
2003	Our Group was engaged in the development of a commercial and retail complex in West Kowloon, with an original contract sum of approximately HK$10.7 million.
	Our Group was engaged in the development of a commercial and retail complex in Kwun Tong, with an original contract sum of approximately HK$20.5 million.
2007	Our Group was engaged in the private residential estate development in San Po Kong, with an original contract sum of approximately HK$31.1 million.
2011	Our Group was engaged in the private residential estate development in Ho Man Tin, with an original contract sum of approximately HK$50.0 million.
2017	Kwong Luen Engineering became a registered subcontractor under the Subcontractor Registration Scheme (currently known as the Registered Specialist Trade Contractors Scheme).
	Our Group was engaged in the private residential estate development in Tin Shui Wai, with an original contract sum of approximately HK$153.7 million.
2018	Our Group was engaged in a public housing development in Tai Po, with an original contract sum of approximately HK$15.5 million.
	Kwong Luen Engineering was accredited with ISO 9001:2015.
	Kwong Luen Engineering was accredited with ISO 14001:2015.
	Kwong Luen Engineering was accredited with OHSAS 18001:2007.

Year	Event
2019	Our Group was engaged in a public infrastructure development in Lam Tin, with an original contract sum of approximately HK$99.9 million.
	Our Group successfully secured a project to provide foundation works for the hotel development in Cheung Sha Wan, with an original contract sum of approximately HK$48.5 million.
2020	Our Group successfully secured a project to provide foundation works for a private residential estate development in Kai Tak, with an original contract sum of approximately HK$328.5 million.

CORPORATE HISTORY

The following is a brief corporate history of the establishment and changes in the shareholdings of our operating subsidiary up to the Reorganisation.

Kwong Luen Engineering

Kwong Luen Engineering is principally engaged in the provision of foundation services as a subcontractor in Hong Kong.

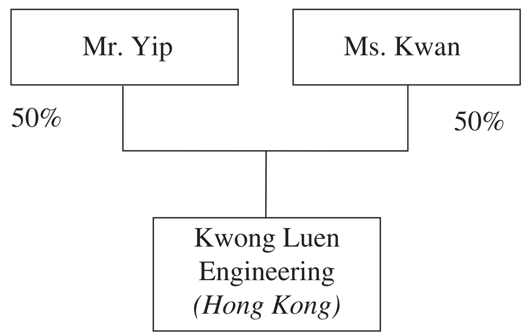
Kwong Luen Engineering is the sole operating subsidiary of our Group. It was incorporated in Hong Kong as a limited liability company on 25 May 1995 with an authorised share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each, of which two shares were allotted and issued as fully paid to Mr. Yip and Mr. Lau Hon Leung Patrick, an independent initial subscriber, at par. As at the Latest Practicable Date, Kwong Luen Engineering has an issued and paid-up share capital of HK$2.00 divided into 2 shares of HK$1.00 each.

On 29 June 2000, the said independent initial subscriber transferred his one share to Ms. Kwan, for cash consideration of HK$1.00. The transfer of the share of Kwong Luen Engineering was made out of their own accord. After the said transfer and up to the Reorganisation, Kwong Luen Engineering was beneficially owned by Mr. Yip as to 50% and Ms. Kwan as to 50%.

Upon completion of the Reorganisation, Kwong Luen Engineering became an indirectly wholly-owned subsidiary of our Company.

REORGANISATION

The following diagram sets out the shareholdings and corporate structure of our Group immediately prior to the Reorganisation:



Our Group has undergone a reorganisation in preparation for the **[REDACTED]** which involved the following steps:

I. Incorporation of Kwong Luen Prosperity and Kwong Luen Success

Kwong Luen Prosperity was incorporated on 18 May 2020 in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each in one single class or series. On 18 May 2020, one ordinary share of par value US$1.00 each was allotted and issued to each of Mr. Yip and Ms. Kwan, representing the entire issued share capital of Kwong Luen Prosperity.

Kwong Luen Success was incorporated on 18 May 2020 in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each in one single class or series. On 18 May 2020, one ordinary share of par value US$1.00 was allotted and issued to Kwong Luen Prosperity, representing the entire issued share capital of Kwong Luen Success.

Upon completion of the Reorganisation, Kwong Luen Success became a directly wholly-owned subsidiary of our Company.

II. Incorporation of our Company

Our Company was incorporated on 20 May 2020 in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each. Upon incorporation, one nil-paid Share was allotted and issued to the initial subscriber, which was transferred to Kwong Luen Prosperity as fully paid on the same date.

Upon completion of the Reorganisation, our Company became the holding company of our Group.

III. Acquisition of Kwong Luen Engineering by Kwong Luen Success

On 4 June 2020, Kwong Luen Success acquired from Mr. Yip and Ms. Kwan one share and one share in Kwong Luen Engineering, representing 50% and 50% of its issued share capital, at a consideration of HK$50 and HK$50 respectively.

The consideration for the said acquisition was satisfied by the allotment and issue of one and one new shares with a par value of US$1.00 each in Kwong Luen Prosperity, credited as fully paid, to Mr. Yip and Ms. Kwan, respectively.

After the said acquisition, the entire issued share capital of Kwong Luen Engineering was directly wholly-owned by Kwong Luen Success.

IV. Acquisition of Kwong Luen Success by our Company

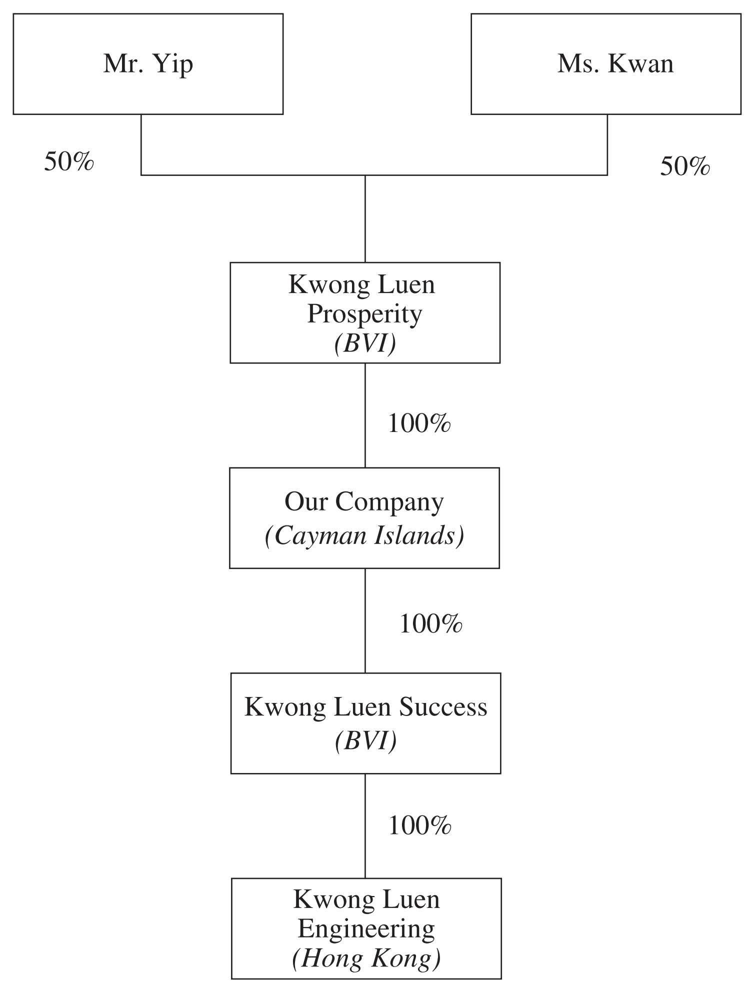
On 17 February 2021, our Company as the purchaser and Kwong Luen Prosperity as the vendor entered into a share purchase agreement whereby our Company acquired one share of Kwong Luen Success, representing the entire issued share of Kwong Luen Success, from Kwong Luen Prosperity at a consideration of HK$100.

As a result of the Reorganisation, our Company became the holding company of our Group. As confirmed by our Directors, save as disclosed in this document, there were no outstanding options, warrants and/or convertibles in respect of each member of our Group as at the Latest Practicable Date.

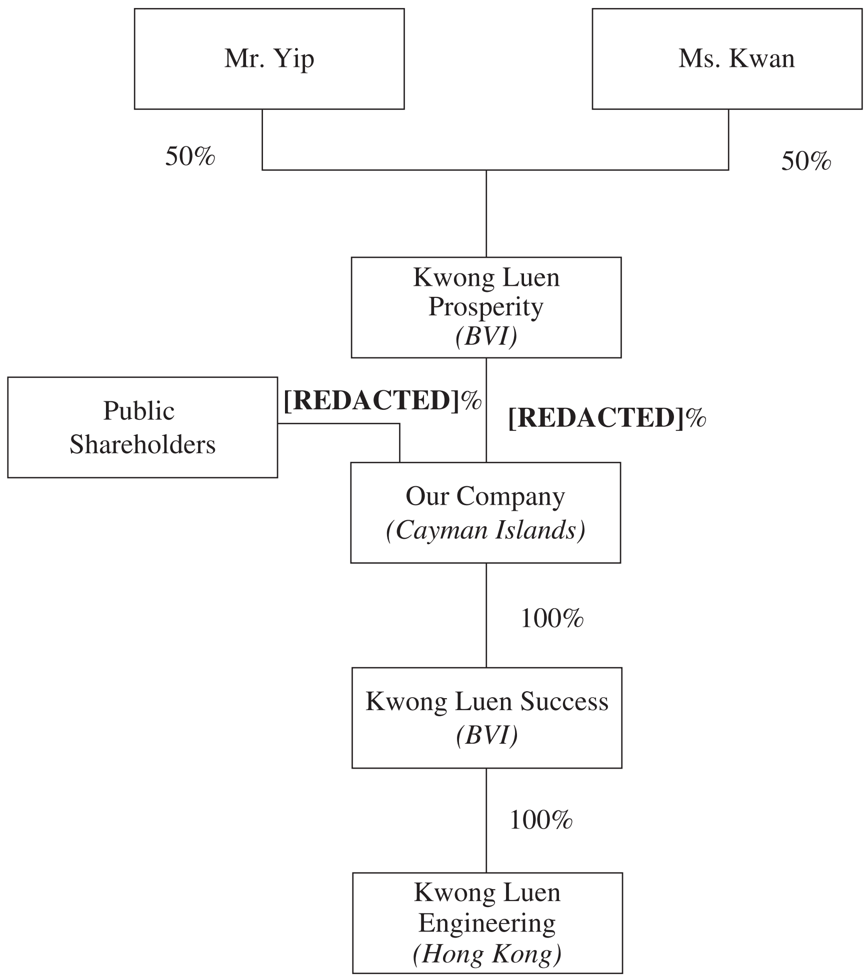
The steps of the Reorganisation would not require any regulatory approvals or permit from any relevant government authorities in Hong Kong.

CORPORATE STRUCTURE

The following diagram sets out the shareholdings and corporate structure of our Group immediately following completion of the Reorganisation but before the **[REDACTED]** and the **[REDACTED]**:



The following diagram sets out the shareholdings and corporate structure of our Group immediately following completion of the **[REDACTED]** and the **[REDACTED]** (without taking into account any Shares that may be allotted and issued upon the exercise of the **[REDACTED]** and any options that may be granted under the Share Option Scheme):



BUSINESS OVERVIEW

We are a foundation works contractor in Hong Kong. We commenced our business in 1995 and have since undertaken foundation works in the role of subcontractor through Kwong Luen Engineering, our principal operating subsidiary. According to the F&S Report, we were ranked as the fourth largest (in terms of revenue) foundation works subcontractor in Hong Kong in 2019, and accounted for approximately 1.7% market share of the foundation industry*(Note)*. During the Track Record Period, the foundation works undertaken by us mainly comprised ELS and other associated works including pile cap construction, underground drainage works and site formation works.

Note: The ranking is computed based on public information and does not include foundation works subcontractors that were not listed on the Stock Exchange due to lack of public information.

Our foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, we have established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. During the Track Record Period, the majority of our revenue was derived from foundation works in residential developments.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period by the type of development involved:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *(%)*
Residential	15	133,854	78.6	10.0	18	222,527	81.5	14.5	23	345,615	85.4	13.5
Non-residential *(Note 1)*	2	36,371	21.4	16.9	3	50,389	18.5	2.1	10	59,210	14.6	9.5
Total	17	170,225	100.0	11.4	21*(Note 2)*	272,916	100.0	12.2	33*(Note 3)*	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *%*	No. of projects	Revenue *HK$'000*	% of total revenue	Gross profit margin *%*
Residential	16	71,240	95.1	12.8	17	163,675	74.0	12.7
Non-residential *(Note 1)*	6	3,678	4.9	10.8	11	57,560	26.0	13.3
Total	22	74,918	100.0	12.7	28*(Note 4)*	221,235	100.0	12.9

Notes:

1. Non-residential developments such as commercial and infrastructure developments.

2. Out of the 21 projects which contributed revenue to FY2018/19, 10 projects also contributed revenue to FY2017/18.

3. Out of the 33 projects which contributed revenue to FY2019/20, 6 and 16 projects also contributed revenue to FY2017/18 and FY2018/19, respectively.

4. Out of the 28 projects which contributed revenue to the five months ended 31 August 2020, 2, 6 and 20 projects also contributed revenue to FY2017/18, FY2018/19 and FY2019/20, respectively.

Our Group's gross profit margin for non-residential development projects was approximately 16.9% for FY2017/18 which was mainly attributable to the substantial amount of foundation works we had performed for a commercial development project for Customer A, namely Project No. #07, which accounted for the majority of our revenue derived from non-residential development projects in FY2017/18. Leveraging our long-established and stable business relationship with Customer A, we were able to factor in a profit margin, which was comparable to our overall gross profit margin attributable to Customer A of approximately 16.3% for FY2017/18, for Project No. #07. Our Group's gross profit margin for non-residential development projects decreased from 16.9% for FY2017/18 to 2.1% for FY2018/19, which was mainly attributable to the substantial amount of foundation works we had performed for Project No. #09 in FY2018/19. Taking into consideration (i) Project No. #09 being our first potential non-residential development project obtained from Customer B, and (ii) the prospect of strengthening our business relationship with Customer B, we had factored in a relatively low profit margin in determining the tender price for Project No. #09, resulting in our lower gross profit margin attributable to non-residential development project in FY2018/19. For further details on our relationship with Customer B, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers (and subcontractors)" below in this section.

Our Group's gross profit margin for non-residential development projects increased from approximately 2.1% for FY2018/19 to approximately 9.5% for FY2019/20 which was mainly attributable to (i) the substantial amount of foundation works we had performed for a commercial development project for Customer A, namely Project No. #08, which accounted for approximately 64.1% of our revenue derived from non-residential development projects in FY2019/20. In respect of Project No. #08, we had factored in a relatively higher profit margin and our gross profit margin attributable to Project No. #08 was approximately 10% for FY2019/20; and (ii) was partially offset by the relatively lower gross profit margin we had factored in for one and two projects we undertook for Customer J and Shui Wing Group, respectively, in FY2019/20. Our gross profit margins attributable to the aforesaid projects with Customer J and Shui Wing Group were approximately 8% on average for FY2019/20. Taking into consideration Customer J and Shui Wing Group was our new customer for 2020 and 2019, respectively and the prospect of strengthening our business relationship with them, we had factored in a relatively lower gross profit margin for projects awarded by them.

Our Group's gross profit margin for non-residential development projects increased from approximately 9.5% for FY2019/20 to approximately 13.3% for the five months ended 31 August 2020, which was mainly attributable to the substantial amount of foundation works we had performed for two infrastructure development projects for Lik Shing Engineering Company Limited, namely Project No. O13 and Project No. O14. Given that we had commenced our business relationship with Lik Shing Engineering Company Limited since 2018 and demonstrated to them our ability to fulfil their quality standards, requirements and specifications in previous projects, we had started to factor in a higher profit margin for projects awarded by Lik Shing Engineering Company Limited, which was in line with the increase in our overall gross profit margin attributable to Lik Shing Engineering Company Limited from approximately 7.6% for FY2019/20 to approximately 11.9% for the five months ended 31 August 2020.

We were engaged in both private and public sector projects in Hong Kong. During the Track Record Period, a substantial portion of our revenue was derived from foundation works in private sector projects. The project owners of our private sector projects were generally property developers and utilities companies, and our customers were those main contractors or subcontractors employed under such projects. In respect of public sector projects, our customers were generally subcontractors employed under those projects initiated by the Government, such as Housing Authority and CEDD.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period for private and public sector projects:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*(%)*		*HK$'000*		*(%)*		*HK$'000*		*(%)*
Private sector	17	170,225	100.0	11.4	20	262,798	96.3	12.3	27	388,146	95.9	13.1
Public sector	–	–	–	–	1	10,118	3.7	7.7	6	16,679	4.1	7.9
Total	17	170,225	100.0	11.4	21 *(Note 1)*	272,916	100.0	12.2	33 *(Note 2)*	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*%*		*HK$'000*		*%*
Private sector	20	73,190	97.7	12.9	20	185,214	83.7	13.2
Public sector	2	1,728	2.3	6.1	8	36,021	16.3	11.6
Total	22	74,918	100.0	12.7	28 *(Note 3)*	221,235	100.0	12.9

Notes:

1. Out of the 21 projects which contributed revenue to FY2018/19, 10 projects also contributed revenue to FY2017/18.

2. Out of the 33 projects which contributed revenue to FY2019/20, 6 and 16 projects also contributed revenue to FY2017/18 and FY2018/19, respectively.

3. Out of the 28 projects which contributed revenue to the five months ended 31 August 2020, 2, 6 and 20 projects also contributed revenue to FY2017/18, FY2018/19 and FY2019/20, respectively.

Our Group's gross profit margin for public sector projects increased from 7.9% for FY2019/20 to 11.6% for the five months ended 31 August 2020, which was mainly attributable to the substantial amount of foundation works we had performed for two infrastructure development projects for Lik Shing Engineering Company Limited, namely Project No. O13 and Project No. O14. Given that we had commenced our business relationship with Lik Shing Engineering Company Limited since 2018 and demonstrated to them our ability to fulfil their quality standards, requirements and specifications in previous projects, we had started to factor in a higher profit margin for projects awarded by Lik Shing Engineering Company Limited as compared to the previous projects we had undertaken for them, which was in line with the increase in our overall gross profit margin attributable to Lik Shing Engineering Company Limited from approximately 7.6% for FY2019/20 to approximately 11.9% for the five months ended 31 August 2020.

Our Group remains open to undertaking projects from different sectors and types of development. Our pricing strategies for (i) public and private sector projects; and (ii) residential and non-residential projects are largely similar. In determining the gross profit margin of a project during tender submission, our executive Directors generally take into consideration, amongst others factors, (i) the size and duration of the project; (ii) years of business relationship with the customer; (iii) credit history and financial track record of the customer; and (iv) prospect of obtaining future contracts from the customer. For further details on our pricing strategy, please refer to the paragraph headed "Pricing strategy" in this section.

During the Track Record Period, most of our residential projects undertaken were initiated by Developer I and we had participated in such projects as a subcontractor of Customer A. Our Group's gross profit margin attributable to Customer A was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period. For further details, please refer to the paragraph headed "Our customers – Further information on our top customers – Customer A and Sanfield" below in this section.

Meanwhile, the non-residential projects undertaken by us during the Track Record Period were obtained from a larger customer base, mainly including Customer A, Customer B, Customer J, Shui Wing Group and Lik Shing Engineering Company Limited. The property owners of these non-residential projects include the Government, such as CEDD, as well as different property developers in Hong Kong. Given the difference in (i) the customer base and the associated project owners of our residential and non-residential projects; (ii) length of our working relationships with such customers and the associated project owners; and (iii) project requirements and quality standards imposed by such customers and the associated project owners, there was a larger fluctuation in our gross profit margin attributable to non-residential projects as compared to our residential projects.

Similarly, since our private sector projects undertaken during the Track Record Period were mainly originated from Developer I and obtained by us from Customer A, our gross profit margin attributable to private sector projects was relatively higher as compared to public sector projects during the same periods.

During the Track Record Period, we had a total of 53 projects with revenue contribution to us. During the Track Record Period and up to the Latest Practicable Date, we did not experience any loss-making projects. As at the Latest Practicable Date, we had 16 projects on hand. For further details, please refer to the paragraph headed "Projects on hand" below in this section.

Given that all the necessary licences, permits or approval required for projects in which we are involved are arranged by the relevant main contractors, there is no particular licence, permit or approval required to be obtained by us in providing foundation works services as a subcontractor except the business registration. Meanwhile, subcontractors engaged under the public sector projects initiated by the Government, such as Housing Authority and CEDD, are required to possess registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. Kwong Luen Engineering is currently registered under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. For further details, please refer to the paragraph headed "Licence and qualifications" 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; (iii) suppliers of waste disposal services; and (iv) suppliers of other miscellaneous items such as transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery as well as testing services.

We maintain a team of skilled workers for performing different types of foundation works. As at the Latest Practicable Date, we had a total of 88 site workers. Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain trades of works. During the Track Record Period, we engaged our subcontractors mainly for performing certain ELS works such as shoring works and certain pile cap construction such as steel reinforcement works and formwork erection works. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our subcontracting fees incurred were approximately HK$55.5 million, HK$102.2 million, HK$130.7 million and HK$49.9 million, respectively.

We also possess a machinery fleet for performing different types of foundation works, mainly comprising excavators, loaders, crawler crane and bending machines. Our executive Directors believe that our investment in machinery enables us (i) to cater for foundation works of different scales and complexities; (ii) to deploy our own machinery which in turn would improve our efficiency and schedule planning; and (iii) to reduce our reliance on suppliers in providing the required machinery for our projects. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we purchased machinery in the amount of approximately HK$8.8 million, HK$13.1 million, HK$12.1 million and HK$3.6 million at costs, respectively. Depending on the service capacity and availability of our machinery fleet as well as the types of machinery required, we may also lease machinery from the rental service providers or require our subcontractors to equip themselves with the necessary machinery. The cost for the provision of the required machinery by our subcontractors is generally included in our subcontracting fees.

Depending on the contract terms with our customers, materials may be procured by us at our cost or provided by our customers to us at our cost or at the cost of our customers. If the works involve further subcontractors engaged by us, the costs of materials may be borne by us or by our subcontractors, depending on our contracts with different subcontractors in different projects. The major types of materials that we required included metal parts and concrete.

According to the F&S Report, the demand for foundation works will continue to grow at a CAGR of approximately 3.2% from 2020 to 2024, reaching approximately HK$25.7 billion in 2024. With our experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for foundation works in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed "Industry overview – Market drivers and opportunities" in this document.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We have an established track record in the foundation industry in Hong Kong

Our Group commenced our business operations in 1995 through Kwong Luen Engineering, our principal operating subsidiary. According to the F&S Report, we were ranked as the fourth largest (in terms of revenue) foundation works subcontractor in Hong Kong in 2019, and accounted for approximately 1.7% market share of the foundation industry*(Note)*. In our operating history of 25 years, we have focused on providing foundation works services in the role of subcontractor and built up our expertise and track record in foundation works.

Note: The ranking is computed based on public information and does not include foundation works subcontractors that were not listed on the Stock Exchange due to lack of public information.

We have provided quality foundation works services for various residential and commercial developments initiated by some of the leading private property developers in Hong Kong. For instance, we acted as subcontractor and undertook 21, four and four projects initiated by Developer I, Developer C and Developer D, respectively, during the Track Record Period. In particular, our Group was admitted by Sanfield, a wholly-owned subsidiary of Developer I since 2018. For further details regarding the background of these developers, please refer to the paragraph headed "Our customers – Further information on our top customers" below in this section. We believe that our established track record in the foundation industry in Hong Kong gives us an advantage in terms of maintaining existing customers and securing new business opportunities.

We own a machinery fleet to carry out a wide range of foundation works

We have our own machinery including excavators, loaders, crawler crane and bending machines for performing different types of foundation works. As at the Latest Practicable Date, we owned 97 sets of excavators, 11 sets of loaders, one set of crawler crane and two sets of bending machines. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we acquired machinery in the amount of approximately HK$8.8 million, HK$13.1 million, HK$12.1 million and HK$3.6 million at costs, respectively. Our executive Directors believe that our investment in machinery enables us (i) to cater for foundation works of different scales and complexities; (ii) to deploy our own machinery which in turn would improve our efficiency and schedule planning; and (iii) to reduce our reliance on suppliers in providing the required machinery for our projects which in turn would facilitate us in maintaining the competitiveness of our pricing. For further information regarding our machinery, please refer to the paragraph headed "Machinery and motor vehicles" below in this section.

We possess the know-how to perform comprehensive ELS works with various methods

We possess the know-how to perform comprehensive ELS works with various methods. Apart from typical open-cut and bottom-up methods, we may use a top-down method to perform comprehensive ELS works if so requested by our customer. The top-down method increases the flexibility and efficiency in the planning and implementation of construction developments, particularly those involving high-rise buildings, as it allows both substructure and superstructure works to be carried out simultaneously. Hence, it also requires a higher project management ability and coordination skills on the part of foundation contractors. For further details regarding the top-down method used by us, please refer to the paragraph headed "Description of our services – (i) ELS works" below in this section. During the Track Record Period, we have used the top-down method to carry out comprehensive ELS works for a number of projects initiated by Developer I. According to the F&S Report, it is increasingly common for project owners and/or main contractors to require foundation works contractors to perform comprehensive ELS works using the top-down method. Owing to the technical know-how and expertise involved, only a limited number of foundation works contractors are capable of carrying out ELS works using the top-down method in Hong Kong. In addition, according to the F&S Report, the foundation works for large-scaled private housing estates are of larger scale and involved higher complexity as compared to public facilities and single-block buildings, which have standardised construction specification and design across each project. In view of the aforesaid, our executive Directors believe that our know-how in this aspect has and will strengthen our position in tendering for projects initiated by property developers who prefer to expedite the project schedule through the use of top-down method for private residential development project. In addition, our executive Directors believe that our expertise in using the top-down method in the projects of Developer I is commonly applicable to projects initiated by other property developers who also prefer using top-down method for ELS works.

Our management team is experienced and dedicated

Mr. Yip, our chief executive officer, an executive Director and a founder of our Group, has about 30 years of experience in the foundation industry and construction project management. Mr. Yip is primarily responsible for overseeing the daily operation, managing the project management team and formulating the overall business development strategies of our Group. Ms. Kwan, an executive Director, has about 20 years of experience in the foundation industry. Ms. Kwan is primarily responsible for overseeing the human resources and administration affairs of our Group. Our executive Directors are supported by our project management team consisting of 19 personnel as at the Latest Practicable Date, who possess practical skills and experience as required in handling our projects. For instance, Mr. Chan Chi Chung, our project manager, and Mr. Kwok Yiu Hung, our site manager, each has about 12 years and 37 years of experience in the construction industry, respectively. For further details regarding the background and experience of our management team, please refer to the section headed "Directors and senior management" in this document. Under the leadership of Mr. Yip and Ms. Kwan, we have a strong and dedicated execution team in liaising with our existing and potential customers for their needs and market trends. In particular, we maintain frequent interactions with our customers for their feedbacks on the quality of our services. Our executive Directors believe that our management's technical expertise and professional knowledge of the industry have been our Group's valuable assets and will continue to strengthen our competitiveness in the industry.

We impose a 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. 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 executive Directors believe that our stringent quality assurance system and strong commitment to environmental management 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 foundation works contractor in Hong Kong.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong foundation industry. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional foundation projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand.

Taking into consideration (i) our competitive strengths set out in the paragraph headed "Competitive strengths" above in this section; (ii) the service capacity of our machinery fleet and workforce; (iii) our capability and know-how to perform comprehensive ELS works with various methods; (iv) our proven track record and expertise in providing foundation services; and (v) the forecasted growth of foundation industry in Hong Kong attributable to the planned infrastructure development projects, the increase of land supply and the expected number of new private residential buildings to be completed as provided in the F&S Report, our Directors believe that our Group would be able to capture the potential business opportunities associated with the forecasted increase in demand for foundation works as discussed in the paragraphs below if we continue to increase our available resources.

In this connection, our key business strategies are as follows:

Competing for foundation projects and expanding our market share

According to the F&S Report, it is expected that the gross value of foundation works in Hong Kong will further increase from approximately HK$22.7 billion in 2020 to approximately HK$25.7 billion in 2024, representing a CAGR of approximately 3.2% from 2020 to 2024. As such, our executive Directors believe that our Group should focus on deploying our resources towards competing for additional and more sizeable foundation projects in Hong Kong. However, the number of projects that can be executed by our Group concurrently at any given time is constrained by our then available resources, including the availability of our manpower, machinery and working capital. As at the Latest Practicable Date, we had 16 projects on hand, among which, seven projects are each expected to generate revenue of HK$10.0 million or above to us after the Track Record Period. Further, the backlog value of our projects on hand as at 31 August 2020 was approximately HK$575.2 million, which was higher than our backlog value as at 31 March 2018 (i.e. approximately HK$249.9 million), 31 March 2019 (i.e. approximately HK$263.5 million) and 31 March 2020 (i.e. approximately HK$288.7 million). Subsequent to the Track Record Period, we obtained a sizeable project with estimated contract sum of approximately HK$41.6 million. Our executive Directors believe that our Group will be able to undertake additional projects on top of our present scale of operation and our current projects on hand if we are able to continue to increase our available resources, including our manpower, machinery and financial resources.

Our Group also intends to deploy more resources towards competing for foundation works originated from the public sector projects as it can enable us to have more opportunities for obtaining foundation projects. As at the Latest Practicable Date, we had seven public sector projects on hand, and one of them had an original estimated contract sum of approximately HK$99.9 million which involves an infrastructure development initiated by the CEDD. According to the F&S Report, as the Government is determined to increase the housing supply and community facilities, the gross value of foundation works in the public sector is expected to increase to approximately HK$7.9 billion by the end of 2024, representing a CAGR of approximately 3.2% from 2020 to 2024. Leveraging our established track record in undertaking foundation works in residential developments as well as our experience in undertaking public sector projects as aforementioned, our executive Directors believe that we will be able to capture the opportunities for foundation works originated from public sector projects.

We will adopt the following strategies to enhance our competitiveness for foundation projects originated from the public sector:

(i) ensuring that Kwong Luen Engineering remains eligible to be registered on the Registered Specialist Trade Contractors Scheme by satisfying the requirements of the Construction Industry Council as we are required to possess such registration when we act as subcontractor in public sector projects. For details, please refer to the paragraph headed "Regulatory overview – D. Licensing/Registration regime" in this document;

(ii) acquiring additional machinery with NRMM approval labels so as to comply with the requirements under the Technical Circular. For further details, please refer to the paragraph headed "Acquiring additional machinery to enhance our machinery fleet" below in this section; and

(iii) monitoring the gazettes and different Government websites for new and upcoming public sector projects which involve foundation works and actively approaching the main contractors which have obtained such projects following our plan to strengthen our services capacity through the acquisition of additional machinery with NRMM approval labels and increasing our financial resources for undertaking additional public sector projects.

In addition, our executive Directors consider that the **[REDACTED]** will enhance our corporate profile and credibility which will enable our Group to be considered more favourably by different industry players including contractors and Government authorities, given that a **[REDACTED]** company is subject to ongoing regulatory compliance for announcements, financial disclosure and corporate governance. According to the F&S Report, except for our Group, all of the top five leading foundation works subcontractors in Hong Kong by revenue in 2019 are companies listed on the Stock Exchange, and hence we believe that having a **[REDACTED]** status would enhance our market position among the top players in the foundation works subcontracting industry. Based on the above, our executive Directors consider that upon our successful **[REDACTED]**, our Group will have greater exposure to potential opportunities, and our competitiveness for foundation works projects will increase accordingly.

Adhering to prudent financial management to ensure optimal finance costs and capital sufficiency

Our executive Directors believe that our expansion of service capacity and business growth have to be supported by sound financial position and sufficient financial resources. A strong capital base is essential to cope with increased turnover and support capital intensive foundation projects. According to the F&S Report, foundation works contractors generally experience net cash outflows as project up-front costs at the preliminary stage of a project. The up-front costs of our projects generally include project startup costs at the initial stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and waste disposal and related fees. Based on our operation history during the Track Record Period and depending on the scale of the projects, it generally took approximately one to seven months for us to generate positive cumulative cash flow from a project since its commencement (the "**Up-front Period**"). Depending on our terms of engagement with different customers, the total amount of up-front costs incurred by our Group during the Up-front Period represented on average approximately 9.6% of the estimated contract sum of the project. The specific amount of up-front costs incurred may vary from project to project, depending on the party being responsible for the procurement of materials, the schedule of project implementation and the length of our relationships with the relevant customers.

In June 2020, our Group was awarded with a project, namely Project No. O01 (details of which are set out in the paragraph headed "Projects on hand" below in this section), by Sanfield with an estimated contract sum of approximately HK$328.5 million which has commenced in August 2020. Project No. O01 represents the largest project (in terms of estimated contract sum) obtained by us during the Track Record Period and up to the Latest Practicable Date. Our executive Directors consider that the award of this sizeable project by Sanfield to us is a recognition of our service quality and reliability as demonstrated in our previous projects. According to the F&S Report, Developer I, being the parent group of Sanfield, is famous for its high quality property developments and stringent requirements of subcontractor selection. In 2018, our executive Directors sighted a notice published by Sanfield in newspaper inviting construction contractors to submit application in becoming one of its approved subcontractors. Leveraging our track record experience in projects initiated by Developer I as a subcontractor engaged by Customer A, and our ability in providing quality services which conform with the quality standards, requirements and specifications of Developer I, our executive Directors considered that it was an opportunity for us to establish a direct working relationship with Sanfield. In May 2018, Our Group submitted an application, setting out our corporate information, credentials, registration, job references, together with other supporting documents such as our corporate documents, reference letters and financial statements to Sanfield in support of our application to become one of its approved subcontractors. Our application was evaluated by the internal tender committee of Sanfield based on their internal criteria of selection of subcontractors. After several rounds of interviews with Sanfield, our application was approved in August 2018 and our Group has since been admitted as one of the approved subcontractors of Sanfield (being a group member of Developer I) and started receiving tender invitations from Sanfield directly since 2018. During the three years ended 31 March 2020, we obtained a total of five projects with relatively small-scale directly from Sanfield, with their estimated contract sum ranging from approximately HK$0.2 million to HK$9.6 million.

According to the F&S Report, Developer I ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019). In light of the market share of Developer I in the private residential development industry in Hong Kong, our executive Directors consider that there will be ample tender opportunities for foundation works projects available to the approved subcontractors of Sanfield (being a group member of Developer I and a main contractor in its projects). Our executive Directors consider that the award of Project No. O01 to us signifies an endorsement of our ability to handle large scale foundation works by a leading private property developer group in Hong Kong, and this track record will facilitate us to compete for projects of similar scale from other major property developers in the future.

Taking into account the relatively large-scale of Project No. O01 as well as the materials and subcontracting services required for the implementation of ELS works, we estimate that we will have to incur in total approximately HK$31.5 million, representing approximately 9.6% of the estimated contract sum of Project No. O01, as project up-front costs, subject to the project schedule to be provided by Sanfield.

In addition, our Group was also awarded with two projects, namely Project No. O03 and Project No. O15 (details of which are set out in the paragraph headed "Projects on hand" below in this section), by Customer B in June 2020 and October 2020 with an estimated contract sum of approximately HK$50.4 million and HK$41.6 million of which Project No. O03 has commenced in January 2021 and Project No. O15 is expected to commence in or around March 2021. We estimate that we will have to incur in total approximately HK$4.8 million and HK$4.0 million, representing approximately 9.6% of the estimated contract sum of Project No. O03 and Project No. O15, respectively, as project up-front costs, subject to the project schedule to be provided by Customer B.

We have managed our capital and cash position prudently and believe that we have a good reputation in settling our liabilities and payments to our suppliers and subcontractors in a timely manner. We have also used our best endeavour to collect amounts due to us from our customers efficiently to avoid liquidity problem. After the **[REDACTED]**, we will continue to monitor our liquidity position and assess the funding requirements of each project. In particular, our executive Directors expect to utilise a portion of the **[REDACTED]** from the **[REDACTED]** to fund the initial working capital needs of our Group's existing and future foundation projects. For details, please refer to the paragraph headed "Future plans and **[REDACTED]** – **[REDACTED]** – Earmarked projects" in this document. As at the Latest Practicable Date, our Group had a total of 57 submitted tenders that were still pending tender results, which have an aggregate tender sum of approximately HK$1.3 billion. Our executive Directors are of the view that the **[REDACTED]** will strengthen our financial position and allow our Group to undertake additional and more sizeable projects in both private and public sectors.

Acquiring additional machinery to enhance our machinery fleet

Taking into consideration the needs for machinery arising from our projects on hand, tendered projects and other potential projects as well as the increasing awareness of environmental protection in the foundation industry, we intend to apply part of the **[REDACTED]** from the **[REDACTED]** to acquire 13 excavators and one crawler crane with recognised environmental features. Our executive Directors believe that acquisition of additional machinery will allow us to (i) improve our efficiency and technical capability; (ii) increase our tender success rate due to the immediate availability of relevant machinery; (iii) enhance our flexibility to deploy our resources more efficiently; and (iv) facilitate the compliance of our machinery with applicable environmental standards.

The availability of our machinery is crucial to our capacity to carry out foundation works to the satisfaction of our customers. According to the F&S Report, having a fleet of self-owned machinery is considered to be a competitive edge in capturing tender invitations from contractors for foundation works. We were committed to continually expand our fleet of machinery to accommodate our growing machinery needs arising from the significant growth in our business operations during the Track Record Period. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we purchased machinery in the amount of approximately HK$8.8 million, HK$13.1 million, HK$12.1 million and HK$3.6 million at costs, respectively. In particular, the number of excavators owned by us increased from 53 as at 31 March 2018 to 75 as at 31 March 2019 and further increased to 89 as at 31 March 2020, whereas the number of loaders owned by us increased from five as at 31 March 2018 to seven as at 31 March 2019 and further increased to nine as at 31 March 2020. Our executive Directors believe that it is vital for us to continually invest in additional machinery in order to maintain our competitive edge in the industry.

During the Track Record Period, we had experienced significant growth in our business operations due to the increase in number and scale of foundation projects undertaken by us. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, there were 17, 21, 33 and 28 projects which contributed a total of approximately HK$170.2 million, HK$272.9 million, HK$404.8 million and HK$221.2 million to our revenue, respectively. Subsequent to the Track Record Period, we obtained a sizeable project with estimated contract sum of approximately HK$41.6 million. Going forward, we intend to maintain our business growth by obtaining additional and sizeable foundation projects from our existing and potential customers. Taking into account the machinery needs associated with our projects on hand, tendered projects and other potential projects, our executive Directors consider that it is imperative for our Group to further strengthen our fleet of machinery in order to maintain our efficiency in project implementation and fulfil our future operation needs.

During the Track Record Period, machinery deployed for the use in our projects were either (i) owned by ourselves; (ii) provided by our customers; (iii) provided by our subcontractors; or (iv) leased from third party machinery rental services providers. Assuming all else remain the same, our executive Directors consider that the deployment of self-owned machinery under scenario (i) generally contribute to a higher profit margin as compared to the other scenarios where machinery is provided by our customers, our subcontractors or third party machinery rental services providers.

Our executive Directors generally take into account certain mark-up over our estimated costs for the provision of machinery when determining the tender price of a project. However, if the machinery is provided by our customers under scenario (ii), our Group will likely lose the opportunity of charging the mark-up for the provision of the required machinery.

Under scenarios (iii) and (iv), if we rely on our subcontractors or third party machinery rental services providers for the provision of machinery, then we may be subject to the risks of unavailability of machinery or inability to procure the necessary machinery on a timely basis and/or at a reasonable price. The inherent uncertainties associated with relying on our subcontractors or third party rental services providers for the provision of machinery under scenarios (iii) and (iv) may result in delays in our completion of works and/or higher costs to be incurred by us than our original estimation when determining our tender price under scenario (i), thereby resulting in cost overruns. In addition, our subcontractors and third party rental services providers generally factor in a mark-up for the provision of machinery in their fees charged to us under scenarios (iii) and (iv), thereby eroding further room of charging a mark-up on our customers for the provision of machinery.

Besides, as the age of our machinery increases, they generally depreciate in value, operational efficiency and cost-effectiveness. As at the Latest Practicable Date, we owned 97 sets of excavators, 11 sets of loaders, one set of crawler crane and two sets of bending machines. Based on the straight-line depreciation method adopting an annual depreciation rate of 15% under our accounting policy, as at 31 August 2020, 26 sets of our excavators and two sets of loaders were fully depreciated or will be fully depreciated within one year. By replacing the aged machinery, our Group will benefit from the higher operational efficiency and lower maintenance cost of new machinery. It is crucial for our Group to constantly review the conditions of our machinery and determine if any machinery replacement or upgrade is required for maintaining our competitiveness.

According to the F&S Report, environmental compliance status is becoming one of the major criterion in tender assessment for construction projects in both private and public sectors. In particular, it is increasingly common for main contractors to encourage subcontractors at all tiers to deploy machinery which comply with recognised environmental standards such as the Quality Powered Mechanical Equipment label issued by the Environmental Protection Department and the emission levels prescribed under the NRMM Regulation. In light of the growing emphasis on the use of environmentally friendly machinery in the construction industry, our executive Directors consider that the acquisition of machinery with recognised environmental features will further strengthen our tender competitiveness for foundation works projects. Further, our plan to acquire additional machinery which fulfil the emission levels prescribed under the NRMM Regulation will also facilitate us to enhance our presence in the public sector foundation projects, given that only those regulated machines which have obtained the NRMM approval labels were allowed to be deployed in sizeable public sector projects from 1 June 2019 onwards. For further details, please refer to the paragraph headed "Regulatory overview – B. Environmental protection – NRMM Regulation" in this document.

Expanding our workforce

As at 31 August 2020, we had 140 employees, of which 19 were from our project management team comprising three site agents, seven site foremen, two engineers, five quantity surveyors and two safety officers. Limited by the manpower of our current project management team, in particular site agents and site foremen who supervise our site workers and subcontractors at the project sites, we believe it is crucial to expand our in-house team of staff in order to undertake several sizeable foundation projects concurrently. In addition, we have maintained a pool of skilled workers for performing different types of foundation works throughout the Track Record Period. In order to accommodate our business growth, we had continuously expanded our workforce, as demonstrated by the increase in the number of our site workers from 33 as at 31 March 2018 to 87 as at 31 August 2020. It has been our priority to deploy our own workers to perform site works as far as our resources allow and we intend to adhere to such practice as our executive Directors believe that this would enable us to have a better cost and quality control than other foundation works contractors who heavily rely on their subcontractors to perform site works. We currently plan to recruit 34 additional staff, including eight project management staff, 20 site workers, four machinery operators and two finance and administrative staff after the **[REDACTED]**.

Investing in hardware device and computer software to enhance our information technology capability and project implementation efficiency

We intend to invest in hardware device and computer software to enhance our information technology capability and increase our efficiency in project implementation. In particular, we intend to apply part of our **[REDACTED]** from the **[REDACTED]** for purchasing the building information modeling ("**BIM**") software together with certain ancillary supporting hardware device and provide relevant technical trainings for our staff. BIM is an intelligent software which allows users to create and/or edit three-dimensional ("**3D**") models. According to the F&S Report, the application of BIM software is increasingly common among contractors in the foundation industry as it provides 3D sketches to assist engineers and workers in understanding the foundation works to be carried out and helps to identify and tackle in advance any potential problems that may be encountered during project implementation.

After the award of projects to us, our customers generally provide us with technical drawings of the foundation works to be carried out. Our engineers, who are responsible for overseeing the engineering and technical aspects of the projects, will review such technical drawings to plan for the implementation of site operations. Based on the actual geological conditions and particular requirements of the site works, when necessary, our engineer may propose revisions to the technical drawings manually or with basic computer-aided software. Given our customers have increasingly applied the use of BIM software in generating technical drawings, our executive Directors consider that our planned investment in BIM software can facilitate us to conduct better analysis on the engineering and technical aspects of our projects, which will in turn enhance our technical competency and efficiency and lower the risk of encountering any material problems during our project implementation.

Implementation of business strategies

For further details on the implementation of the above-mentioned business strategies, please refer to the section headed "Future plans and **[REDACTED]**" in this document.

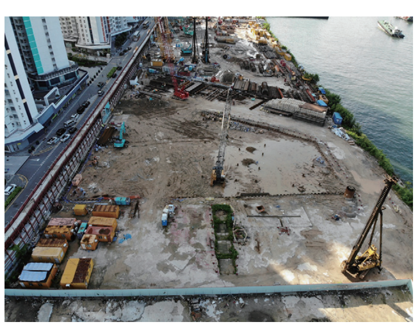
DESCRIPTION OF OUR SERVICES

We provide foundation works services as a subcontractor solely in Hong Kong. We have provided foundation works services mainly for various residential developments initiated by private property developers in Hong Kong. To a lesser extent, we have also provided foundation works services for public sector projects initiated by the Government, such as Housing Authority and CEDD. During the Track Record Period, our foundation works services mainly comprised ELS and other associated works including pile cap construction, underground drainage works and site formation works. Our services are inter-related to one another and our projects may require single or multiple type(s) of services depending on our customers' needs and requirements for their construction developments.

(i) ELS works

ELS works is an early process in building and construction. In our projects, we generally commence ELS works when the main contractors hand over the construction sites to us upon their installation of piles. ELS works generally involve the repeated processes of (i) installing and shoring up support by steel pile walls, diaphragm walls and/or mini-pile walls; (ii) loosening and excavating soil out of the ground of the enclosed area between the walls; and (iii) installing lateral support between walls to maintain stability until reaching the required depth of excavation.

The following images show some of the project sites in which our ELS works were performed:



Apart from typical open-cut and bottom-up methods, we may use a top-down method to perform comprehensive ELS works if so requested by our customer. Under such method, the first level of soil excavation is performed to make room for the construction of ground floor slab which serves as lateral support to the substructure walls. After the ground floor slab is completed, the superstructure work of the buildings can be performed at the same time as further excavation for the basement continues. This top-down method increases the flexibility and efficiency in the planning and implementation of construction developments, particularly those involving high-rise buildings, as it allows both substructure and superstructure works to be carried out simultaneously.

The following image shows one of the project sites in which we used the top-down method to perform comprehensive ELS works:

(ii) Other associated works

Apart from ELS works, we also perform other associated works as follows:

- *pile cap construction*: it refers to the process of constructing a pile cap, which create a stable and larger foundation for the transmission and distribution of the structure load onto the pile or group of piles;

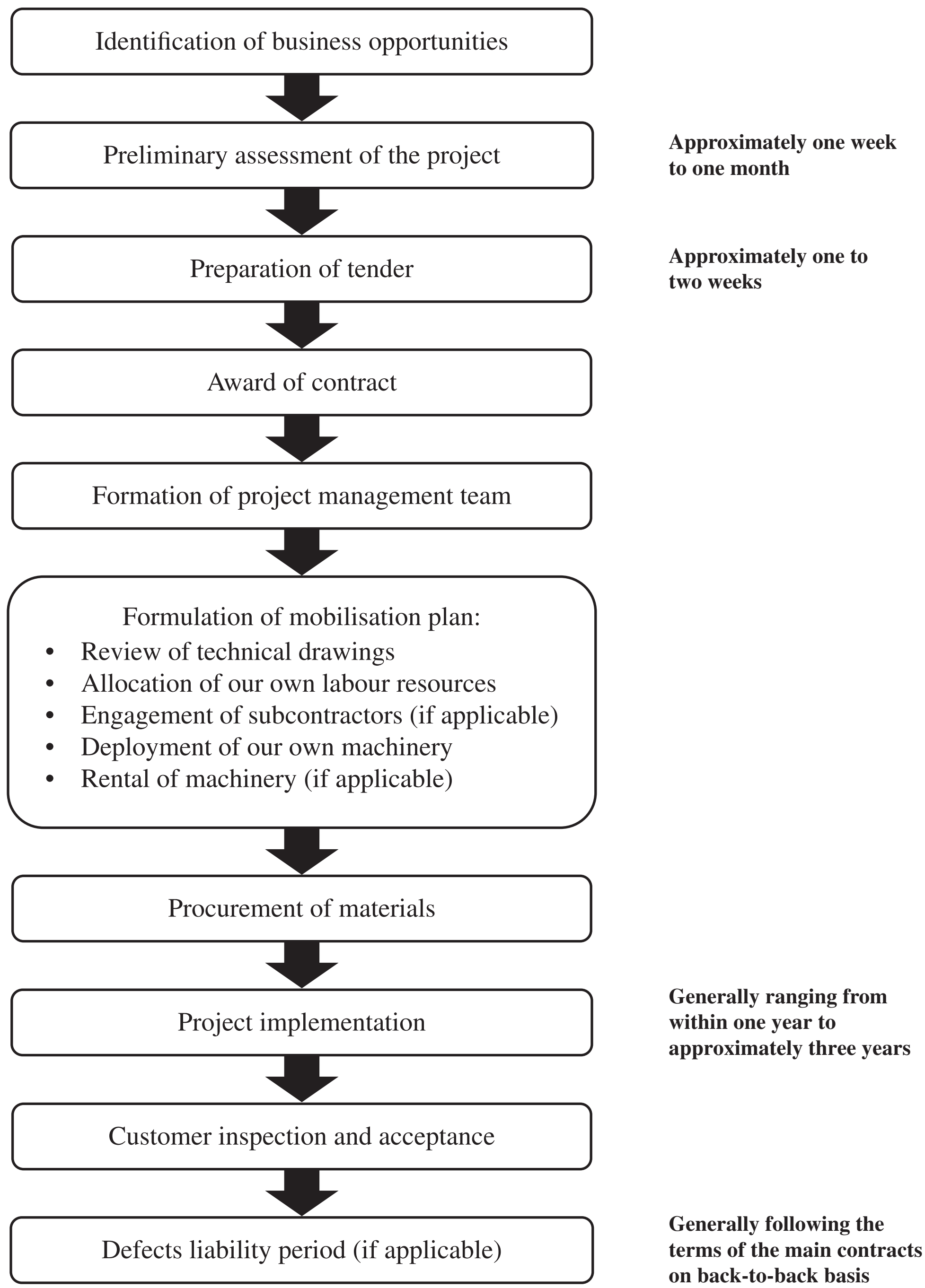
- *underground drainage works*: it refers to repair, addition, alteration, and removal of underground drainage systems; and

- *site formation works*: it refers to the preparation of land in order to accommodate buildings or other facilities which will be placed within the area, including but not limited to forming the land to the required orientation, level or shape, and providing other temporary or permanent supporting services.

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.

Identification of business opportunities

We identify potential projects mainly through invitations for tender from our customers. Our Group received from time to time invitations to submit tender from construction or foundation works contractors in Hong Kong. Please refer to the paragraph headed "Sales and marketing" below in this section for further details.

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 and financial resources and feasibility of the project to determine whether we should proceed with the preparation of tender.

Preparation of tender

Our quantity surveyors are primarily responsible for the preparation of tender submission. We 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 submission generally includes the priced bill of quantities or schedule of rate, our corporate profile and track record. The tender submission 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 pre-bid 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 submission in order to have a better 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 or clarify on the options of our scope of service or propose amendment to our specifications.

Award of contract

Our customers generally confirm our engagement by entering into a formal contract with us. On occasions, it may take us up to six months to negotiate and finalise the contract terms with customers before entering into a formal contract. In that case, our customers may issue a letter of award to confirm their intent to award the relevant project to us. During the Track Record Period, the contracts with our customers generally comprise a combination of fixed lump-sum items and re-measurement items. In respect of fixed lump-sum items, we are generally required to carry out the specified works required by our customers of fixed quantity at an agreed fixed price. In respect of re-measurement items, the contract will specify 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 our customer's instructions or 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 work done. Depending on our negotiations with customers, some of our customers may also engage us solely based on a lump sum fixed price or on re-measurement basis.

The following table sets forth a breakdown of our revenue during the Track Record Period by types of pricing under our contracts with customers:

	FY2017/18			FY2018/19			FY2019/20			Five months ended 31 August 2020		
	No. of projects	Revenue *HK$'000*	% of total revenue	No. of projects	Revenue *HK$'000*	% of total revenue	No. of projects	Revenue *HK$'000*	% of total revenue	No. of projects	Revenue *HK$'000*	% of total revenue
Contracts comprising a combination of fixed lump-sum items and re-measurement items	11	112,907	66.3	10	188,129	68.9	11	232,279	57.4	9	83,834	37.9
Contracts solely based on re-measurement basis	4	56,264	33.1	9	84,250	30.9	19	167,172	41.3	18	134,552	60.8
Contracts solely based on a lump sum fixed price	2	1,054	0.6	2	537	0.2	3	5,374	1.3	1	2,849	1.3
	17	170,225	100.0	21	272,916	100.0	33	404,825	100.0	28	221,235	100.0

In addition, the contracts generally set forth the payment terms, contract period and other standard terms of services. For further details, please refer to the paragraph headed "Our customers – Principal terms of engagement" below in this section.

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:

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2020
Number of projects for which we have submitted tenders	35	57	102	62
Number of projects awarded *(Note)*	6	11	15	9
Success rate *(%)* *(Note)*	17.1	19.3	14.7	14.5

Note: 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.

During the Track Record Period, our Group had from time to time received invitations for tender when our available resources were occupied by other projects on hand. On occasion, in order to (i) maintain our business 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, we would respond to our customers' invitations by submitting tenders instead of turning them down. In such circumstances, our executive Directors would take a more prudent approach in cost 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.

During the Track Record Period, Customer A would generally seek pre-bid quotation from our Group before they submitted their tenders to Sanfield. Since Kwong Luen Engineering became an approved subcontractor of Sanfield in 2018, whenever a new tender opportunity from Sanfield arises, it is our own internal practice to first check whether Customer A had previously sought pre-bid quotation from our Group for the same project. If a pre-bid quotation had already been provided by our Group to Customer A, we would then refrain from tendering for the same project according to our internal practice. On the other hand, if our Group had not received any prior request for pre-bid quotation from Customer A, we may proceed to submit tender to Sanfield for such project, taking into account, among other factors, its available resources including manpower, machinery and working capital (the "**Internal Tender Practice**").

Our executive Directors consider that it is in the commercial interests of our Group to adopt the Internal Tender Practice taking into consideration:

(i) according to the F&S Report, Developer I ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019). According to the 2019/20 annual report of Developer I, a total of 10 projects in Hong Kong with an attributable gross floor area of about 3.5 million square feet were ready for handover during the year. Given the number of ongoing property developments initiated by Developer I, the volume of project undertaken by Customer A for Sanfield is relatively insignificant as compared to the total number of foundation works projects available from Sanfield in relation to the new property development projects initiated by Developer I. As such, our executive Directors considered that Developer I's property development has given rise to regular and sizeable demand for quality foundation works that could support the business growth of both Customer A and our Group at the same time. As at the Latest Practicable Date, our Group had submitted 48 tenders to Sanfield which were still undergoing tender selection process and pending tender results. Our executive Directors believe that our Group still maintains a huge exposure to a wide range of tender opportunities directly from Sanfield even if we refrained from tendering for those Sanfield's projects that Customer A had sought pre-bid quotation from our Group; and

(ii) our Group has established business relationship with Customer A since 1996 and our Group was engaged as a subcontractor by Customer A in a number of private sector projects initiated by Developer I. Customer A was mainly responsible for supervision and administration of the projects, and outsourced the site works involved. Based on the past experience of our executive Directors, before Customer A submitted their tenders to Sanfield, they would generally seek pre-bid quotation from our Group if they have considered to invite our Group to tender for the projects in the event they are successfully awarded with such projects from Sanfield. Taking into consideration (a) the established business relationships between Customer A and our Group; (b) the trust and confidence of Customer A in our Group which was built up through the successful completion of various projects to the satisfaction of Customer A in the past two decades; and (c) Customer A remains to be a major customer of our Group, our executive Directors consider that it is in our Group's interests to continue our relationship with Customer A by adopting the Internal Tender Practices as long as our Group could derive reasonable profit from the project.

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.

Formation of project management team

We usually form a project management team which consists of site agent, engineer, quantity surveyor, site foreman and safety officer. Our project management team is generally responsible for (i) formulation of detailed plans and schedule; (ii) arrangement of necessary materials, machinery 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 our works performed fulfil our customers' requirements, and 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 project management team:

- our site agent is responsible for supervising our overall workforce on site, monitoring work efficiency and performance of site workers, 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 engineer is responsible for assisting our site agent and site foreman in overseeing the engineering and technical aspects of the projects such as planning for the site operations and devising suitable methods and procedures;

- our quantity surveyor is responsible for performing cost estimation, determining, procuring and monitoring the quantity of materials required in the project, and managing the project implementation costs;

- our site foreman is responsible for assisting our site agent to supervise and monitor work progress on site, supervising workmanship and quality and preparing site records setting out the works performed by our workers and subcontractors; and

- our safety officer is responsible for supervising and overseeing the implementation of site safety measures and monitoring day-to-day occupational health and safety compliance. Our safety officer is responsible for conducting safety review (when required) to collect, assess and verify information on the efficiency, effectiveness and reliability of our safety management system.

In general, we determine the manpower allocation to a project management team based on the scales and complexity of our projects as well as the existing workload of our staff.

Formulation of mobilisation plan

Our engineer and quantity surveyor are responsible for reviewing the technical drawings provided by our customers to plan for the implementation of site operation. Based on the actual geological conditions and particular requirements of the site works, when necessary, our engineer may propose revisions to the technical drawings manually or with basic computer-aided software.

We possess our own direct labour resources for performing foundation 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 and subcontractors – Our subcontractors" below in this section.

We also possess a machinery fleet for performing different types of foundation works, mainly comprising excavators, loaders, crawler crane and bending machines. For further details, please refer to the paragraph headed "Machinery and motor vehicles" below in this section. Depending on the service capacity and availability of our machinery fleet as well as the types of machinery required, we may also lease machinery from rental service providers or require our subcontractors to equip themselves with the necessary machinery. The cost for the provision of the required machinery by our subcontractors is generally included in our subcontracting fees.

Procurement of materials

Depending on the contract terms with our customers, materials may be procured by us at our cost or provided by our customers to us at our cost or at the cost of our customers. If the works involve further subcontractors engaged by us, the costs of materials may be borne by us or by our subcontractors, depending on our contracts with different subcontractors in different projects. The major types of materials that we required included metal parts and concrete.

In general, we will contact the suppliers that we have obtained pre-bid 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 procured materials are in conformance to our customers' specifications. We have also from time to time required our suppliers to provide us with testing certificates for the materials supplied to us.

Project implementation

We may experience net cash outflows as project up-front costs at the preliminary stage of a project. The up-front costs of our projects generally include project startup costs at the initial stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and waste disposal and related fees.

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 implementation. After the review and endorsement by our executive Directors, 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 work done throughout project implementation. For further details on the payment terms, please refer to the paragraph headed "Our customers – Principal terms of engagement" below in this section.

Customer inspection and acceptance

Upon completion of our works, our customers or their authorised representatives will conduct inspection and examination on our work done to ensure they comply with their quality standards, requirements and specifications. Upon passing the inspection, we will submit to our customer the final payment application which indicates substantial completion of the site works.

Variation orders (if any)

A variation order may vary the original scope of work. Our customers may request additional, reduction or alteration of works beyond the scope of the contract during project implementation. The value of the variation works will be negotiated with our customers. A variation order is usually placed by way of a work order or instruction by our customer describing the detailed works to be performed under such variation order.

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our revenue attributable to the variation orders amounted to approximately HK$1.0 million, HK$3.0 million, HK$6.3 million and HK$1.9 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material cancellation of works or material disputes with our customers on the amount of the variation orders.

Defects liability period (if applicable)

If so requested by our customers, our contracts may include a defects liability period following the terms of the main contracts on back-to-back basis. During the defects 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 negligence or failure to comply with our contractual obligation.

Retention monies (if applicable)

Depending on the contract terms, our customers may hold up a certain percentage of each payment made to us as retention monies. Retention monies are normally up to 10% of the value of the work done, subject to a cap of up to 10% of the total contract sum. Depending on the contract terms, the retention monies are generally released (i) upon completion of our works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. Alternatively, in some of our projects, half of the retention monies are released upon the completion on our parts of works and the remaining half are generally released upon six months following such completion.

As at 31 March 2018, 2019 and 2020 and 31 August 2020, our retention receivables amounted to approximately HK$14.1 million, HK$24.5 million, HK$39.1 million and HK$45.5 million respectively. Please refer to the paragraph headed "Financial information – Discussion on selected financial position items – Retention receivables" in this document for a further discussion and analysis regarding our retention receivables.

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

Revenue by type of development

Our foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, we have established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. During the Track Record Period, the majority of our revenue was derived from foundation works in residential developments.

Set forth below are descriptions of the developments that we participated in as foundation works contractor during the Track Record Period:

Residential: mainly included residential developments initiated by some of the leading private property developers in Hong Kong. To a lesser extent, we were also involved in a public housing development initiated by the Housing Authority. The duration of these projects may range from within one year to approximately three years.

Non-residential: mainly included commercial developments such as hotel and office building and infrastructure developments such as landfills zones, power station, sewage treatment facility and tunnel. The duration of these projects may range from within one year to approximately two years.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period by the type of development involved:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*(%)*		*HK$'000*		*(%)*		*HK$'000*		*(%)*
Residential	15	133,854	78.6	10.0	18	222,527	81.5	14.5	23	345,615	85.4	13.5
Non-residential *(Note 1)*	2	36,371	21.4	16.9	3	50,389	18.5	2.1	10	59,210	14.6	9.5
Total	17	170,225	100.0	11.4	21 *(Note 2)*	272,916	100.0	12.2	33 *(Note 3)*	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*%*		*HK$'000*		*%*
Residential	16	71,240	95.1	12.8	17	163,675	74.0	12.7
Non-residential *(Note 1)*	6	3,678	4.9	10.8	11	57,560	26.0	13.3
Total	22	74,918	100.0	12.7	28 *(Note 4)*	221,235	100.0	12.9

Notes:

1. Non-residential developments such as commercial and infrastructure developments.

2. Out of the 21 projects which contributed revenue to FY2018/19, 10 projects also contributed revenue to FY2017/18.

3. Out of the 33 projects which contributed revenue to FY2019/20, 6 and 16 projects also contributed revenue to FY2017/18 and FY2018/19, respectively.

4. Out of the 28 projects which contributed revenue to the five months ended 31 August 2020, 2, 6 and 20 projects also contributed revenue to FY2017/18, FY2018/19 and FY2019/20, respectively.

Our gross profit margin varies from project to project due to a range of factors, including (i) business relationship; (ii) the complexity and size of the project; (iii) subcontracting fees; (iv) prices of materials; and (v) our pricing strategy. Our Group's gross profit margin for residential development projects had remained broadly stable within the range of 10.0% to 14.5% during the Track Record Period. Our Group's gross profit margin for non-residential development projects in FY2018/19 was comparatively lower than that in FY2017/18 and

FY2019/20 which was mainly attributable to the substantial amount of foundation works we had performed for Project No. #09 in FY2018/19. Taking into consideration (i) Project No. #09 being our first potential non-residential development project obtained from Customer B, (ii) the prospect of strengthening our business relationship with Customer B, we had factored in a relatively low profit margin in determining the tender price for Project No. #09, resulting in our lower gross profit margin attributable to non-residential development project in FY2018/19.

Our Group's higher gross profit margin than the other top five leading foundation works subcontractors in Hong Kong by revenue in 2019

Our Group's gross profit margin was comparatively higher than the other top five leading foundation works subcontractors in Hong Kong by revenue in 2019. The background information of these other top five players is set out in the paragraph headed "Industry overview – Competitive landscape and entry barriers" in this document. Our executive Directors consider that our comparatively higher gross profit margin was mainly attributable to the following factors:

(i) *Higher gross profit margin attributable to Customer A's projects, which were all initiated by Developer I:* during the Track Record Period, our Group was engaged as a subcontractor by Customer A in a number of private sector projects initiated by Developer I. Our Group's ability in performing foundation works using the top-down method is one of our competitive strengths which distinguished us from the other leading foundation works subcontractors for obtaining and undertaking Sanfield's projects which were initiated by Developer I, taking into consideration (i) our Group has demonstrated quality of works over a long period of time through our engagement by Customer A in Sanfield's projects before we became an approved subcontractor of Sanfield in 2018; and (ii) we have built up our track record from using the top-down method in performing foundation works for Sanfield in projects initiated by Developer I. By comparison, based on reasonable enquiries, three of the other leading foundation works subcontractors were not on the approved subcontractors list of Sanfield; the remaining one was only admitted as Sanfield's approved subcontractor in 2020 and had not obtained any projects from Sanfield so far, while it had only performed one foundation works project initiated by other property developer using top-down method in the past.

As advised by F&S, Developer I is one of the leading property developers in Hong Kong and is renowned for its high-quality property developments and stringent requirements of subcontractor selection. Developer I, together with Sanfield, is reputable for its flexibility and capability in coming up with foundation design plan that suits the requirements and site conditions of design and build projects. Having considered that (i) Developer I pursues a high standard on different aspects of project quality; (ii) Customer A is focused on the role of project management supervision; and (iii) we have worked with Customer A for a long period of time since 1996 and had a thorough understanding on the requirements of Customer A as well as the quality standards of Developer I, we were able to attain a relatively higher gross profit margin from Customer A's projects, which were all initiated by Developer I. By comparison, as advised by F&S and based on reasonable enquiries, the other leading foundation works subcontractors did not have any substantial involvement in projects initiated by Developer I, and Sanfield was not one of their major customers. The difference in the gross profit margin of our Group and the other leading foundation works subcontractors is partly attributable to their different composition of customer base and the associated project owners;

(ii) *Possession of a large fleet of machinery:* our Directors consider that the scale of our machinery fleet is larger than three of the other leading foundation works subcontractors. Having a large fleet of machinery has enabled us to better control our costs and facilitate our estimation of time and costs involved in our projects, thereby contributing to our relatively higher gross profit margin; and

(iii) *Pricing and cost management:* our Group's pricing strategy is overseen by our management team and we had not encountered any material cost overrun in our projects during the Track Record Period. By comparison, our executive Directors noted that some of the other leading foundation works subcontractors had encountered unexpected complexity and delay in projects according to the annual reports of their most recent financial year, which had adversely affected their gross profit margins.

Revenue by project sector

Public sector projects refer to projects of which the project owners are Government departments, statutory bodies or their associated organisations, while private sector projects refer to projects that are not public sector projects. The project owners of our private sector projects were generally property developers and utilities companies, and our customers were those main contractors or subcontractors employed under such projects. In respect of public sector projects, our customers were generally subcontractors employed under those projects initiated by the Government, such as Housing Authority and CEDD.

The following table sets forth a breakdown of our revenue and gross profit margin during the Track Record Period for private and public sector projects:

	FY2017/18				FY2018/19				FY2019/20			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*(%)*		*HK$'000*		*(%)*		*HK$'000*		*(%)*
Private sector	17	170,225	100.0	11.4	20	262,798	96.3	12.3	27	388,146	95.9	13.1
Public sector	–	–	–	–	1	10,118	3.7	7.7	6	16,679	4.1	7.9
Total	17	170,225	100.0	11.4	21*(Note 1)*	272,916	100.0	12.2	33*(Note 2)*	404,825	100.0	12.9

	Five months ended 31 August							
	2019				2020			
	No. of projects	Revenue	% of total revenue	Gross profit margin	No. of projects	Revenue	% of total revenue	Gross profit margin
		HK$'000		*%*		*HK$'000*		*%*
Private sector	20	73,190	97.7	12.9	20	185,214	83.7	13.2
Public sector	2	1,728	2.3	6.1	8	36,021	16.3	11.6
Total	22	74,918	100.0	12.7	28*(Note 3)*	221,235	100.0	12.9

Notes:

1. Out of the 21 projects which contributed revenue to FY2018/19, 10 projects also contributed revenue to FY2017/18.

2. Out of the 33 projects which contributed revenue to FY2019/20, 6 and 16 projects also contributed revenue to FY2017/18 and FY2018/19, respectively.

3. Out of the 28 projects which contributed revenue to the five months ended 31 August 2020, 2, 6 and 20 projects also contributed revenue to FY2017/18, FY2018/19 and FY2019/20, respectively.

Number of projects by range of revenue recognised

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, there were 17, 21, 33 and 28 projects which contributed a total of HK$170.2 million, HK$272.9 million, HK$404.8 million and HK$221.2 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:

	FY2017/18	**FY2018/19**	**FY2019/20**	**Five months ended 31 August 2020**
	No. of projects	*No. of projects*	*No. of projects*	*No. of projects*
Revenue recognised				
HK$50.0 million or above	–	1	3	1
HK$20.0 million to below HK$50.0 million	3	3	4	1
HK$10.0 million to below HK$20.0 million	4	4	2	4
HK$1.0 million to below HK$10.0 million	3	4	15	15
Below HK$1.0 million	7	9	9	7
Total	17	21	33	28

Top projects undertaken during the Track Record Period

The following table sets out the details of our projects undertaken with accumulated revenue contribution to us of HK$30.0 million or above during the Track Record Period:

Project No.	Rank	Customer (Note 1)	Project owner	Estimated contract sum (Note 2)	Private/ Public sector	Type of development	Location of the project	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period) FY2017/18		FY2018/19		FY2019/20		Five months ended 31 August 2020		Estimated revenue to be recognised after the Track Record Period (Note 4)
				HK$'000					HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000
#01	1	Customer A	Developer I (Note 5)	153,680	Private	Residential	Tin Shui Wai	Commencement: January 2018 Completion: December 2020	10,452	6.1	110,164	40.4	38,275	9.5	2,186	1.0	56
#03	2	Customer A	Developer I (Note 5)	143,053	Private	Residential	Tuen Mun	Commencement: August 2019 Completion: March 2021	–	–	–	–	67,316	16.6	59,217	26.8	23,424
#02	3	Customer A	Developer I (Note 5)	100,645	Private	Residential	Tin Shui Wai	Commencement: October 2018 Completion: December 2020	–	–	36,755	13.5	65,787	16.3	13,453	6.1	1,362
#04	4	Sunnic Engineering Limited	A group of property developers	108,130	Private	Residential	Cheung Sha Wan	Commencement: August 2019 Completion: March 2021	–	–	–	–	65,872	16.3	13,753	6.2	31,586
#11	5	Customer B	A group of property developers	50,891	Private	Residential	Cheung Sha Wan	Commencement: November 2019 Completion: January 2021	–	–	–	–	27,681	6.8	40,599	18.4	10
#05	6	Customer B	A property developer	50,110	Private	Residential	Pak Shek Kok	Commencement: April 2017 Completion: June 2019	44,574	26.2	14,518	5.3	16	Negligible	–	–	–

Project No.	Rank	Customer (Note 1)	Project owner	Estimated contract sum (Note 2)	Private/ Public sector	Type of development	Location of the project	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period)								Estimated revenue to be recognised after the Track Record Period (Note 4)
									FY2017/18		FY2018/19		FY2019/20		Five months ended 31 August 2020		
				HK$'000					*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
#08	7	Customer A	Developer I (Note 5)	48,473	Private	Commercial	Cheung Sha Wan	Commencement: November 2019 Completion: March 2021	–	–	–	–	37,944	9.4	2,580	1.2	7,949
#06	8	Customer A	Developer I (Note 5)	81,072	Private	Residential	Lohas Park	Commencement: February 2016 Completion: August 2018	11,595	6.8	27,852	10.2	–	–	–	–	–
#07	9	Customer A	Developer I (Note 5)	32,000	Private	Commercial	Kwun Tong	Commencement: June 2015 Completion: September 2019	36,367	21.4	2	Negligible	1,662	0.4	–	–	–
#09	10	Customer B	A property developer	38,418	Private	Commercial	Quarry Bay	Commencement: April 2018 Completion: April 2019	–	–	35,842	13.1	113	Negligible	–	–	–
#12	11	Customer B	Developer C (Note 5)	42,290	Private	Residential	Fanling	Commencement: November 2019 Completion: January 2021	–	–	–	–	23,601	5.8	9,409	4.3	2,386
#10	12	Customer A	Developer I (Note 5)	32,000	Private	Residential	North Point	Commencement: March 2017 Completion: April 2018	29,920	17.6	200	0.1	–	–	–	–	–

Notes:

1. Please refer to the paragraph headed "Our customers – Top customers" below in this section.

2. The contract sum shown in the above table represents the original estimated contract sum stated in the final contract and does not take into account variation orders.

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. Developer I and Developer C are the holding companies of Sanfield and Customer C, respectively. Both Sanfield and Customer C are our top five customers during the Track Record Period. For further information, please refer to the paragraph headed "Our customers – Further information on our top customers" below in this section.

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:

	FY2017/18	FY2018/19	FY2019/20	Five months ended 31 August 2020	From 1 September 2020 to the Latest Practicable Date
Opening number of projects *(Note 1)*	13	12	18	23	33
Add: Number of new projects awarded to us *(Note 2)*	6	11	15	10	1
– Number of new project(s) awarded to us in respect of tenders submitted in the preceding financial year/period	1	1	1	1	–
– Number of new project(s) awarded to us in respect of tenders submitted in the relevant financial year/period indicated	5	10	14	9	1
Less: Number of projects completed *(Note 3)*	(7)	(5)	(10)	–	(18)
Ending number of projects *(Note 4)*	12	18	23	33	16

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 or substantially 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.

As at 31 March 2018, 2019, 2020, 31 August 2020 and the Latest Practicable Date, we had a total of 12, 18, 23, 33 and 16 projects in our backlog (including projects that have been awarded to us but not yet commenced) with revenue derived or expected to be derived from such projects as follows:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**	**As at the Latest Practicable Date**
Number of projects in our backlog	12	18	23	33	16

	FY2017/18	**FY2018/19**	**FY2019/20**	**Five months ended 31 August 2020**	**From 1 September 2020 to the Latest Practicable Date**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening value of backlog	205,823	249,886	263,489	288,738	575,246
Total value of new projects and variation orders awarded *(Note 1)*	214,288	286,519	430,074	507,743	84,398
Less: Revenue recognised	(170,225)	(272,916)	(404,825)	(221,235)	(191,577)
Ending value of backlog *(Note 2)*	249,886	263,489	288,738	575,246	468,067

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.

PROJECTS ON HAND

As at the Latest Practicable Date, our Group had 16 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	Project owner	Private/public sector	Type of development	Estimated contract sum (Note 1) HK$'000	Date of commencement and completion of our works (Note 2)	Revenue recognised during the Track Record Period FY2017/18 HK$'000	FY2018/19 HK$'000	FY2019/20 HK$'000	Five months ended 31 August 2020 HK$'000	Estimated revenue to be recognised after the Track Record Period (Note 3) HK$'000
001	Kai Tak	Sanfield	Developer I (Note 4)	Private	Residential	328,524 (Note 5)	Commencement: August 2020 Completion: March 2022	–	–	–	1,868	326,656
002	Lam Tin	Shui Wing Group	Government	Public	Infrastructure	99,907	Commencement: October 2019 Completion: December 2021	–	–	3,851	1,680	98,367
003	Kai Tak	Customer B	A group of property developers	Private	Residential	50,367	Commencement: January 2021 (Note 6) Completion: September 2021 (Note 6)	–	–	–	–	50,367
011	Tsuen Wan	Customer B	A property developer	Private	Commercial	39,698	Commencement: July 2020 Completion: March 2021	–	–	–	18,905	46,323
015	Tung Chung	Customer B	Government	Public	Residential	41,565	Commencement: March 2021 (Note 6) Completion: September 2021 (Note 6)	–	–	–	–	41,565
#04	Cheung Sha Wan	Sunnic Engineering Limited	A group of property developers	Private	Residential	108,130	Commencement: August 2019 Completion: March 2021	–	–	65,872	13,753	31,586

Project No.	Location of the project	Customer	Project owner	Private/public sector	Type of development	Estimated contract sum (Note 1) HK$'000	Date of commencement and completion of our works (Note 2)	Revenue recognised during the Track Record Period FY2017/18 HK$'000	FY2018/19 HK$'000	FY2019/20 HK$'000	Five months ended 31 August 2020 HK$'000	Estimated revenue to be recognised after the Track Record Period (Note 3) HK$'000
#03	Tuen Mun	Customer A	Developer I (Note 4)	Private	Residential	143,053	Commencement: August 2019 Completion: March 2021	–	–	67,316	59,217	23,424
#08	Cheung Sha Wan	Customer A	Developer I (Note 4)	Private	Commercial	48,473	Commencement: November 2019 Completion: March 2021	–	–	37,944	2,580	7,949
O13	Tseung Kwan O	Lik Shing Engineering Company Limited	Government	Public	Infrastructure	7,378	Commencement: August 2020 Completion: March 2021	–	–	–	4,052	3,326
O14	Kai Tak	Lik Shing Engineering Company Limited	Government	Public	Infrastructure	8,871	Commencement: August 2020 Completion: March 2021	–	–	–	8,788	1,361
Other projects (Note 7)								–	10,118	6,659	13,333	6,022
							Total:	–	10,118	181,642	124,176	636,946 (Note 8)

Notes:

1. The contract sum shown in the above table represents the original estimated contract sum stated in the final contract and does not take into account variation orders.

2. 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.

3. 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.

4. Developer I is the holding company of Sanfield. Sanfield is our top five customers during the Track Record Period. For further information, please refer to the paragraph headed "Our customers – Further information on our top customers" below in this section.

5. The expected gross profit margin attributable to Project No. O01 is within the range of 12% to 14% based on our estimation. In making the estimation, 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.

6. Our Group was awarded with Project No. O03 and Project No. O15 in June 2020 and October 2020, respectively. Our Group then entered into liaison and negotiation with Customer B to finalise the contract terms including the date of project commencement and project schedule. In respect of Project No. O03, our Group was notified by Customer B by around August 2020 that the project owner had amended its project schedule to the effect that the project site would be handed over to Customer B later than originally expected. This resulted in further rounds of liaison and negotiation between our Group and Customer B regarding the actual commencement of Project No. O03 before signing of the formal contract. We subsequently entered into formal contracts with Customer B for Project No. O03 and Project No. O15 in December 2020, respectively.

7. Other projects represent our remaining six on-going projects as at the Latest Practicable Date.

8. As at the Latest Practicable Date, we had 16 projects on hand with an aggregate of approximately HK$637.0 million yet to be recognised as revenue after the Track Record Period, among which HK$168.9 million has been recognised as revenue from 1 September 2020 to the Latest Practicable Date and HK$468.1 million has yet to be recognised as revenue after the Latest Practicable Date. For further information of our backlog as at the Latest Practicable Date, please refer to the paragraph headed "Backlog" above in this section.

OUR CUSTOMERS

Characteristics of our customers

During the Track Record Period, our customers mainly included construction contractors or foundation works contractors in Hong Kong. The number of customers with revenue contribution to our Group was six, eight, 13 and nine for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, 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 foundation works on a project-by-project basis. Our executive Directors consider such arrangement is in line with the foundation industry practice in Hong Kong. Our customers generally confirm our engagement by entering into a formal 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 contracts usually specify the commencement date and duration of the project implementation, typically ranging from within one year to approximately three years, subject to any extension which may be granted by our customers where necessary.

Contract sum

During the Track Record Period, the contracts with our customers generally comprise a combination of fixed lump-sum items and re-measurement items. In respect of fixed lump-sum items, we are generally required to carry out the specified works of fixed quantity at an agreed fixed price. In respect of re-measurement items, the contract will specify 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 our customer's instructions or 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 work done. Depending on our negotiations with customers, some of our customers may also engage us solely based on a lump sum fixed price or on re-measurement basis.

Payment terms and arrangements

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 will examine and certify our work 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 14 to 60 days from the issue of our invoices after we received the payment certificates. Depending on the contract terms agreed with our customers, certain customers may directly settle the wages of site workers involved in such projects. In turn, such customers would net off such amounts from their settlement to us. Certain customers adopt a "pay when paid" policy with us and they have the rights to pay us after collection of payments from their customers. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our revenue attributable to customers who adopt a "pay when paid" policy with us amounted to approximately HK$11.6 million, HK$15.3 million, HK$4.7 million and HK$0.3 million, respectively.

Insurance

The main contractors 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.

Procurement of materials

Depending on the contract terms agreed with our customers, materials may be procured by us on our own account or provided by our customers to us at our cost or at the cost of our customers. In certain circumstances, our customers may procure certain specified materials and provide to us for our use at our cost. 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 (and subcontractors)" below in this section. If materials are to be procured by us on our own account, we will generally place orders directly with our suppliers. We typically purchase materials from our internal list of approved materials suppliers.

Defects liability period (if applicable)

For details regarding our defects liability period (if applicable), please refer to the paragraph headed "Business Operations – Operation flow – Defects liability period (if applicable)" above in this section.

Retention monies

For details regarding our retention monies, please refer to the paragraph headed "Business Operations – Operation flow – Retention monies (if applicable)" above in this section.

Variation orders

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

Liquidated damages

Liquidated damages clause may be included in the contracts to protect our customers against our 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 the contract. Liquidated damages are generally calculated on the basis of a fixed sum per day. 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.

Movement in the number of customers

The table below sets forth the movement in the number of our customers during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2020**
Opening balance as at the beginning of the relevant year/period	4	6	8	9
Additions	2	2	5	–
Less: Those customers whose projects with us were completed	–	–	(4)	–
Total number as at the end of the relevant year/period	6	8	9 *(Note)*	9

Note: In FY2019/20, our Group had 13 customers which generated revenue to us and our projects with four of these customers had ended as at 31 March 2020.

The number of customers which generated revenue to us decreased from 13 for FY2019/20 to nine for the five months ended 31 August 2020 mainly because (i) our projects with four of the customers (the "**Four Customers**") which generated revenue to us in FY2019/20 had completed as at 31 March 2020 and our Group had not obtained new projects from these Four Customers during the five months ended 31 August 2020; (ii) in respect of the Four Customers, save and except for Customer D, the contract sum of projects awarded by the remaining customers was generally lower as compared to our other major existing customers; (iii) our Group was awarded with Project No. O01 with an estimated contract sum of approximately HK$328.5 million in June 2020. Given Project No. O01 represents the largest project (in terms of estimated contract sum) obtained by our Group during the Track Record Period and up to the Latest Practicable Date, we had reserved a substantial part of our resources for undertaking Project No. O01. Further, the backlog value of approximately HK$575.2 million of our projects on hand as at 31 August 2020 was much higher than our backlog value as at 31 March 2020 (i.e. approximately HK$288.7 million). Taking into consideration our resources had been substantially occupied by our projects on hand during the five months ended 31 August 2020, our Group had become less active in pursuing smaller scale projects during that period.

As at the Latest Practicable Date, our Group had a total of 57 submitted tenders with an aggregate tender sum of approximately HK$1.3 billion that were still undergoing tender selection process and pending tender results. One of these 57 submitted tenders was related to a project from Customer D with tender amount of approximately HK$2.1 million.

Top customers

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total revenue attributable to our top customer amounted to approximately 66.2%, 68.6%, 54.8% and 37.9% respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 99.2%, 96.2% and 95.2%, respectively.

FY2017/18

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	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Since 1996	15 days; by cheque	112,688	66.2
2	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Since 2017	28 days; by cheque	44,574	26.2
3	Customer C	A construction contractor company in Hong Kong, being a subsidiary of a company listed in Hong Kong which is principally engaged in property development in Hong Kong and the PRC	Since 2016	17 days; by cheque	11,599	6.8
4	Customer D	A construction contractor company in Hong Kong, being a subsidiary of a company listed in Hong Kong which is principally engaged in property development in Hong Kong and the PRC	Since 2016	21 days; by cheque	1,274	0.7
5	Lik Shing Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works in Hong Kong	Since 2018	45 days; by cheque	86	0.1
			Top five customers combined		170,221	100.0
			All other customers		4	Negligible
			Total revenue		170,225	100.0

FY2018/19

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	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Since 1996	15 days; by cheque	187,314	68.6
2	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Since 2017	28 days; by cheque	63,787	23.4
3	New Concepts Foundation Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation, civil engineering and general building works in Hong Kong	Since 2018	Within 14 days upon receipt of payments by our customer from its customer; by cheque	14,545	5.3
4	Shui Wing Group	A group of contractor companies specialising in foundation works in Hong Kong	Since 2019	15 days; by cheque	3,029	1.1
5	Lik Shing Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works in Hong Kong	Since 2018	45 days; by cheque	2,097	0.8
			Top five customers combined		270,772	99.2
			All other customers		2,144	0.8
			Total revenue		272,916	100.0

FY2019/20

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	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Since 1996	15 days; by cheque	221,827	54.8
2	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Since 2017	28 days; by cheque	71,735	17.7
3	Sunnic Engineering Limited	Subsidiary of a PRC-based company listed in Hong Kong which is principally engaged in building construction works worldwide	Since 2019	17 days; by cheque	70,165	17.3
4	Shui Wing Group	A group of contractor companies specialising in foundation works in Hong Kong	Since 2019	15 days; by cheque	13,583	3.4
5	Sanfield	A construction contractor company in Hong Kong, being a subsidiary of a company listed in Hong Kong which is principally engaged in property development in Hong Kong and the PRC	Since 2018	17–30 days; by bank transfer	11,978	3.0
			Top five customers combined		389,288	96.2
			All other customers		15,537	3.8
			Total revenue		404,825	100.0

Five months ended 31 August 2020

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	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Since 2017	28 days; by cheque	83,768	37.9
2	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Since 1996	15 days; by cheque	78,770	35.6
3	Lik Shing Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works in Hong Kong	Since 2018	45 days; by cheque	19,086	8.6
4	Sunnic Engineering Limited	Subsidiary of a PRC-based company listed in Hong Kong which is principally engaged in building construction works worldwide	Since 2019	17 days; by cheque	16,228	7.3
5	Customer J	A contractor company specialising in construction works in Hong Kong	Since 2020	60 days; by cheque	12,942	5.8
			Total five customers combined		210,794	95.2
			All other customers		10,441	4.8
			Total revenue		221,235	100.0

As at the Latest Practicable Date, save for 1,000,000 shares (representing approximately 0.08% of the total issued shares) and 1,000 shares (representing less than 0.01% of the total issued shares) in the holding companies of Customer B and Sanfield, respectively, which are companies whose shares are listed on the Stock Exchange, held for passive investment purpose by Ms. Kwan, 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. Ms. Kwan confirmed that she made such investments due to her positive outlook on the foundation industry and property development market in Hong Kong and the market positions of the holding companies of Customer B and Sanfield.

Further information on our top customers

Customer A and Sanfield

Customer A is a private company incorporated in 1996 in Hong Kong, the principal activities of which include management of foundation works in Hong Kong. We became acquainted with Customer A through the introduction of a third party individual who had worked in the construction industry. Based on the latest annual return of Customer A available at the Companies Registry, its share capital is approximately HK$100,000. The entire issued share capital of Customer A is owned by two individuals, who are independent third parties. The majority shareholder is one of the founders of Customer A and has more than 20 years of experience in the construction industry in Hong Kong. Customer A is not a listed company and therefore its operational and financial information is not publicly available. Based on information provided by Customer A, Customer A has a total of six project supervision and administration staff and does not own any machinery. From 2017 to 2020, Customer A was awarded with a total of 19 projects with aggregate estimated contract sum of approximately HK$735.5 million by Sanfield. As advised by F&S, some of the foundation works subcontractors in Hong Kong are principally focused on project supervision and management role, and it is a common practice for them to delegate the site works to other subcontractor who has a larger operating scale in terms of the size of workforce and machinery fleet. In assessing the credit history and financial track record of Customer A, our Group takes into account (i) we have established business relationship with Customer A for over 20 years and there has been no material disruption or termination in our Group's business relationship with Customer A up to the Latest Practicable Date; (ii) our Group did not record any default on the part of Customer A in settling any amounts due to our Group during the Track Record Period and up to the Latest Practicable Date; (iii) Customer A has continuously made timely progress payment to us for our ongoing projects with them; (iv) based on information publicly available, Customer A was not involved in any material litigations or legal proceedings involving claims for outstanding payment or winding-up proceedings, orders or petitions as at the Latest Practicable Date; and (v) based on confirmation from Customer A, Developer I, being the parent group of Sanfield, was its sole customer during the three financial years ended 31 March 2020. According to the F&S Report, Developer I ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019) and had a good reputation in making timely payments to its suppliers and subcontractors. Further, Sanfield has confirmed that Customer A was admitted as one of the approved subcontractors of Sanfield back in 1990. Having considered the aforesaid, our executive Directors consider that the credit risk encountered by Customer A and/or our credit risk attributable to Customer A are relatively low. As at the Latest Practicable Date, we had two projects on hand with Customer A with an aggregate of approximately HK$31.4 million yet to be recognised as revenue after the Track Record Period. All of the aforementioned projects have commenced and are expected to be completed before March 2021.

Sanfield is a subsidiary of Developer I. Developer I refers to a number of companies collectively which are subsidiaries/fellow subsidiaries/related companies of a company listed on the Main Board of the Stock Exchange (the "**Developer I Listco**"). According to the latest annual report of Developer I Listco, the principal activities of the subsidiaries of Developer I Listco include property development in Hong Kong and the PRC. According to the F&S Report, Developer I ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019). Based on the latest annual report of Developer I Listco, its revenue amounted to over HK$80 billion for the year ended 30 June 2020. As at the Latest Practicable Date, we had two projects on hand with Sanfield with an aggregate of approximately HK$328.6 million yet to be recognised as revenue after the Track Record Period. Other than Project No. O01, which is expected to be completed by March 2022, all of the aforementioned projects have commenced and are expected to be completed before March 2021.

Prior to our admission as one of the approved subcontractors of Sanfield, our Group's involvement in projects initiated by Developer I was limited to the role of subcontractor engaged by Customer A. During the Track Record Period, our Group's average gross profit margin attributable to projects with Customer A was approximately 17%. Subsequent to our admission as one of the approved subcontractors of Sanfield in 2018, our Group obtained three projects directly from Sanfield in FY2018/19, which were comparatively smaller in scale, with average estimated contract sum of approximately HK$2.5 million. Taking into consideration (i) those were the first few projects obtained by us from Sanfield; (ii) our then recent admission as an approved subcontractor of Sanfield; and (iii) the prospect and potential business opportunities arising from strengthening our business relationship with Sanfield, being a subsidiary of Developer I, which ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019), our Group had factored in a lower profit margin of approximately 5% on average in determining the tender price for such projects. Subsequent to FY2018/19 and up to the Latest Practicable Date, our Group was awarded a total of four projects directly by Sanfield, which were comparatively larger in scale, with average estimated contract sum of approximately HK$85.8 million. In particular, one of these projects, namely Project No. O01 had an estimated contract sum of approximately HK$328.5 million. As we had delivered our services to the satisfaction and in conformance with the requirements and specifications of Sanfield in our previous projects with Sanfield which were of smaller scale, our Group has started to factor in a relatively higher profit margin of approximately 12% on average.

Based on information provided by Sanfield, Customer A was admitted as one of the approved subcontractors of Sanfield in 1990. Customer A confirmed that it had undertaken a total of 23 foundation works projects during the three financial years ended 31 March 2020, all of which were originated from Developer I. For FY2017/18, FY2018/19 and FY2019/20, our tender success rate for Customer A was approximately 16.7%, 20.0% and 15.4%, respectively, which is comparable to our overall tender success rate of 17.1%, 19.3% and 14.7%, respectively. Sanfield confirmed that it would normally shortlist a few approved subcontractors from its internally approved list and submit to its internal tender committee for approval, and the selected subcontractors would then receive tender invitation from Sanfield. According to the F&S Report, Developer I, being the parent group of Sanfield, is famous for its high quality property developments and stringent requirements of subcontractor selection. Customer A confirmed that it has been one of the approved subcontractors of Sanfield and has received from time to time tender invitations from Developer I. Customer A also confirmed that: (i) Developer I, being the parent group of Sanfield, was its sole customer during the three financial years ended 31 March 2020; and (ii) apart from our Group, it had engaged not less than three subcontractors for its projects. Save as those business relationships set out in the paragraph headed "Our customers" in this section, our Directors confirmed to the best of their knowledge that there were no other past or present relationship including, without limitation, business, family, employment, financing or otherwise between Customer A and our Company, subsidiaries, Shareholders, Directors, senior management, or any of their respective associates.

We have established business relationship with Customer A since 1996. During the Track Record Period, we were engaged as a subcontractor by Customer A in a number of private sector projects initiated by Developer I. Customer A obtained these foundation projects from the main contractors, including Sanfield and its associated companies (being group members of Developer I), and engaged us as a subcontractor. Customer A was mainly responsible for supervision and administration of the projects, and outsourced the site works involved.

Customer A contributed revenue of approximately HK$112.7 million, HK$187.3 million, HK$221.8 million and HK$78.8 million, representing approximately 66.2%, 68.6%, 54.8% and 35.6% of our total revenue for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. Our Group's gross profit margin attributable to Customer A was approximately 16.3%, 16.5%, 17.0% and 19.7% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively, which was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period. As advised by F&S, Developer I is one of the leading property developers in Hong Kong and is renowned for its high-quality property developments and stringent requirements of subcontractor selection. Developer I, together with Sanfield, is reputable for its flexibility and capability in coming up with foundation design plan that suits the requirements and site conditions of design and build projects. Having considered that (i) Developer I pursues a high standard on different aspects of project quality; (ii) Customer A is focused on the role of project management supervision; and (iii) we have worked with Customer A for a long period of time since 1996 and had a thorough understanding on the requirements of Customer A as well as the quality standards of Developer I, we were able to attain a relatively higher gross profit margin from Customer A's projects, which were all initiated by Developer I.

Our executive Directors consider that it is mutually beneficial and complementary for both Customer A and us to maintain a close and stable business relationship with each other for the following reasons:

- According to the F&S Report, proven track record is the key competitive factor in the foundation industry. Credible track record for quality of works, efficient division of labour, timely delivery within budget control are the critical metrics for the companies to perform foundation works. Property developers and supervising contractors in Hong Kong prefer working with foundation works contractors who have proven record of relevant project experiences. We have established a stable and long term relationship with Customer A. During the Track Record Period, Customer A focused on project supervision and administration and outsourced the site works involved. Our executive Directors believe that Customer A could benefit from our proven track record as a quality subcontractor in handling foundation works and our capability in executing projects on time and in accordance with the required quality standards;

- Foundation works are both labour and machinery intensive in nature. During the Track Record Period, we were able to provide assurance to Customer A on our service capacity due to our commitment to maintaining our own workforce and machinery fleet. As at 31 August 2020, we employed a total of 87 site workers and owned 95 sets of excavators, nine sets of loaders, one set of crawler crane and two sets of bending machines. Our executive Directors believe that our in-house service capacity has been considered favourably by Customer A as it is vital for Customer A to ensure that its subcontractor is well-equipped to handle the relevant site works;

- Customer A confirmed that, during the financial year ended 31 March 2020, we were its largest subcontractor, and its purchase made from us during the same period accounted for approximately 80% of its total subcontracting fee. Customer A confirmed that it had undertaken 11 foundation works projects in the financial year ended 31 March 2020, with contract sum of each project ranging from HK$1.3 million to HK$260.0 million. During the same period, we were engaged as a subcontractor by Customer A in seven projects. Our executive Directors consider that our significant involvement in the projects undertaken by Customer A demonstrated our track record in meeting the requirements of Customer A and its customer in terms of service quality and technical specifications, which could not be easily replicated by other foundation subcontractors in the market; and

- During the Track Record Period, we have used the top-down method to carry out comprehensive ELS works for a number of projects obtained by Customer A from Developer I. The top-down method increases the flexibility and efficiency in the planning and implementation of construction developments, particularly those involving high-rise buildings, as it allows both substructure and superstructure works to be carried out simultaneously. For further details regarding the top-down method used by us, please refer to the paragraph headed "Description of our services – (i) ELS works" above in this section. According to the F&S Report, owing to the technical know-how and expertise involved, only a limited number of foundation works contractors are capable of carrying out comprehensive ELS works using the top-down method in Hong Kong. Our executive Directors consider that our expertise in the top-down method has distinguished our Group among other foundation works subcontractors as it could allow Customer A to conform to the construction methodologies specified by Developer I for the projects.

Based on the aforesaid, our executive Directors are of the view that the likelihood of material adverse change or termination to our relationship with Customer A is low in the foreseeable future.

Other top customers

Customer B is a subsidiary of a company listed on the Main Board of the Stock Exchange (the "**Customer B Holdco**"). According to the latest annual report of Customer B Holdco, its principal business activities include undertaking foundation works in Hong Kong. Based on the latest annual results announcement of Customer B Holdco, its revenue amounted to approximately HK$509.3 million for the year ended 31 March 2020. As at the Latest Practicable Date, we had four projects on hand with Customer B with an aggregate of approximately HK$140.2 million yet to be recognised as revenue after the Track Record Period. Other than Project No. O15, which is expected to commence in or around March 2021 and complete by September 2021, all of the aforementioned projects have commenced and are expected to be completed before September 2021.

Customer C is a subsidiary of Developer C. Developer C refers to a number of companies collectively which are subsidiaries/fellow subsidiaries/related companies of a company listed on the Main Board of the Stock Exchange (the "**Developer C Listco**"). According to the latest annual report of Developer C Listco, the principal activities of the subsidiaries of Developer C Listco include property development in Hong Kong and the PRC. According to the F&S Report, Developer C ranked third among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019). Based on the latest annual report of Developer C Listco, its revenue amounted to over HK$20 billion for the year ended 31 December 2019.

Customer D is a subsidiary of Developer D. Developer D refers to a number of companies collectively which are subsidiaries/fellow subsidiaries/related companies of a company listed on the Main Board of the Stock Exchange (the "**Developer D Listco**"). According to the latest annual report of Developer D Listco, the principal activities of the subsidiaries of Developer D Listco include property development in Hong Kong and the PRC. Based on the latest annual report of Developer D Listco, its revenue amounted to over HK$50 billion for the year ended 30 June 2020.

Lik Shing Engineering Company Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange (the "**Lik Shing Holdco**"). According to the latest annual report of Lik Shing Holdco, its principal business activities include undertaking foundation and site formation works in Hong Kong. Based on the latest annual results announcement of Lik Shing Holdco, its revenue amounted to approximately HK$326.5 million for the year ended 31 March 2020. As at the Latest Practicable Date, we had three projects on hand with Lik Shing Engineering Company Limited with an aggregate of approximately HK$4.7 million yet to be recognised as revenue after the Track Record Period. All of the aforementioned projects have commenced and are expected to be completed before March 2021.

New Concepts Foundation Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange (the "**New Concepts Holdco**"). According to the latest annual report of New Concepts Holdco, its principal business activities include undertaking foundation, civil engineering and general building works in Hong Kong. Based on the latest unaudited annual results announcement of New Concepts Holdco, its revenue amounted to approximately HK$837.2 million for the year ended 31 March 2020.

Shui Wing Group consists of two private companies, namely Shui Wing Construction Company Limited and Shui Wing Engineering Company Limited, incorporated in 1991 and 1989 respectively in Hong Kong. Their principal activities include undertaking foundation works in Hong Kong. Based on the latest annual return of Shui Wing Construction Company Limited and Shui Wing Engineering Company Limited available at the Companies Registry, their share capital is HK$10,000 and HK$5.2 million, respectively. Shui Wing Construction Company Limited and Shui Wing Engineering Company Limited are not listed companies and therefore their operational and financial information is not publicly available. As at the Latest Practicable Date, we had three projects on hand with Shui Wing Group with an aggregate of approximately HK$98.9 million yet to be recognised as revenue after the Track Record Period. All of the aforementioned projects have commenced and are expected to be completed before December 2021.

Sunnic Engineering Limited is a subsidiary of a company listed on the Main Board of the Stock Exchange (the "**Sunnic Holdco**"). According to the latest annual report of Sunnic Holdco, its principal business activities include undertaking building construction works worldwide. Based on the latest annual report of Sunnic Holdco, its revenue amounted to approximately HK$7.9 billion for the year ended 31 December 2019. As at the Latest Practicable Date, we had two projects on hand with Sunnic Engineering Limited with approximately HK$33.2 million yet to be recognised as revenue after the Track Record Period. The aforementioned projects have commenced and are expected to be completed before March 2021.

Customer J is a private company incorporated in 1993 in Hong Kong, the principal activities of which include general construction works in Hong Kong. Based on the latest annual return of Customer J available at the Companies Registry, its share capital is HK$100,000. Customer J is not a listed company and therefore its operational and financial information is not publicly available.

Revenue to be derived from our major customers after the Track Record Period

The table below sets forth the details of the estimated revenue to be derived from our major customers after the Track Record Period under our on-going projects as at the Latest Practicable Date, without taking into account any future projects which may be awarded to us after the Latest Practicable Date:

Customer	Number of on-going projects as at the Latest Practicable Date	Estimated revenue to be recognised from the on-going projects in the seven months ended 31 March 2021	FY2021/22
		HK$'000	*HK$'000*
Customer A	2	31,373	–
Customer B	4	89,369	50,839
Customer C	–	–	–
Customer D	–	–	–
Lik Shing Engineering Company Limited	3	4,731	–
New Concepts Foundation Limited	–	–	–
Shui Wing Group	3	48,153	50,726
Sunnic Engineering Limited	2	33,161	–
Sanfield	2	25,892	302,701
Customer J	–	–	–

Customer concentration

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total revenue attributable to our top customer amounted to approximately 66.2%, 68.6%, 54.8% and 37.9%, respectively. The percentage of our total revenue attributable to our top five customers combined amounted to approximately 100.0%, 99.2%, 96.2% and 95.2%, respectively for the same periods. In particular, a significant portion of our revenue during the Track Record Period was derived from Customer A, which has been one of our top five customers during the Track Record Period and our largest customer for FY2017/18, FY2018/19 and FY2019/20. Customer A contributed revenue of approximately HK$112.7 million, HK$187.3 million, HK$221.8 million and HK$78.8 million, representing approximately 66.2%, 68.6%, 54.8% and 35.6% of our total revenue for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. Our Group's gross profit margin attributable to Customer A was approximately 16.3%, 16.5%, 17.0% and 19.7% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively, which was comparatively higher than the gross profit margin attributable to our other customers during the Track Record Period.

According to the F&S Report, customer concentration is an industry norm in the foundation industry in Hong Kong. Customer generally prefer to engage foundation works subcontractors with industry reputation, comprehensive services offering, technical expertise, proven track record and sound financial capability. According to the Buildings Department, there were 155 registered specialist contractors for foundation works as at 21 May 2020. According to the F&S Report, customer are generally inclined to engage foundation works subcontractors of larger operating scale for large-scale projects. In particular, a large-scale foundation works project would normally have a contract sum of HK$100 million or above. To ensure such large-scale foundation works could be completed on time and within budget, the main contractors would prefer to engage the established market players in the foundation industry who possess the requisite expertise, experience and resources to handle such projects reliably. As advised by F&S, the top five foundation works subcontractors in terms of revenue in the industry (including our Group) had an estimated revenue ranging from HK$393.9 million to HK$509.3 million in the year of 2019. As such, where a foundation works subcontractor obtains any large-scale projects with contract sum of HK$100 million or above, such projects would likely contribute a significant portion of its revenue in the forthcoming years and hence this may result in customer concentration for such foundation works subcontractor in the relevant periods.

Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

- According to the F&S Report, Developer I, being the parent group of Sanfield, is famous for its high quality property developments and stringent requirements of subcontractor selection. In 2018, our executive Directors sighted a notice published by Sanfield in newspaper inviting construction contractors to submit application in becoming one of its approved subcontractors. Leveraging our track record experience in projects initiated by Developer I as a subcontractor engaged by Customer A, and our ability in providing quality services which conform with the quality standards, requirements and specifications of Developer I, our executive Directors considered that it was an opportunity for us to establish a direct working relationship with Sanfield. In May 2018, our Group submitted an application, setting out our corporate information, credentials, registration, job references, together with other supporting documents such as our corporate documents, reference letters and financial statements to Sanfield in support of our application to become one of its approved subcontractors. Our application was evaluated by the internal tender committee of Sanfield based on their internal criteria of selection of subcontractors. After several rounds of interviews with Sanfield, our application was approved in August 2018 and our Group has since been admitted as one of the approved subcontractors of Sanfield and started receiving tender invitations from Sanfield directly since 2018. During the Track Record Period, we had obtained a total of seven projects directly from Sanfield which contributed revenue of nil, approximately HK$0.9 million, HK$12.0 million and HK$7.9 million to us in FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. According to the F&S Report, some property developers are inclined to award their projects to the preferred main contractors, being their fellow group members, which in turn will further delegate their tasks to different subcontractors. Given that Sanfield is a group member and a main contractor of Developer I, our executive Directors consider that our admission as one of the approved subcontractors of Sanfield is conducive to diversify our source of tender opportunities for the projects initiated by Developer I given that our tender exposure to projects initiated by Developer I would not be limited to those awarded to Customer A. Our executive Directors believe that our Group will be able to continue securing projects directly from Sanfield taking into consideration (i) according to the F&S Report, Developer I, being the parent group of Sanfield, is famous for its high quality property developments and stringent requirements of subcontractor selection. Our application for becoming an approved subcontractor of Sanfield was evaluated by the internal tender committee of Sanfield based on their internal criteria of selection of subcontractors and involved several rounds of interview. Our success in becoming an approved subcontractor of Sanfield is a recognition of our ability in providing quality services which conform with the quality standards, requirements and specifications of Developer I; (ii) the increase in number and scale of tender invitations received by our Group from Sanfield during the Track Record Period. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we received nil, seven, 40 and 30 tender invitations directly from Sanfield, with aggregate estimated tender sum of nil, approximately HK$19.8 million, HK$317.8 million and HK$1.0 billion, respectively; (iii) as at the Latest Practicable Date, our Group had submitted 48 tenders to Sanfield which were still undergoing tender selection process and pending tender result; (iv) the gradual increase in scale of projects awarded by Sanfield since we became one of its approved subcontractors. Our Group obtained three projects which were comparatively smaller in scale, with average estimated contract sum of approximately HK$2.5 million, directly from Sanfield shortly after our admission as one of its approved subcontractors in FY2018/19. Subsequent to FY2018/19 and up to the Latest Practicable Date, our Group was awarded a total of four projects directly by Sanfield, which were comparatively larger in scale, with average estimated contract sum of approximately HK$85.8 million; and (v) our Group obtained a sizeable project directly from Sanfield with estimated contract sum of approximately HK$328.5 million in June 2020, which represents the largest project (in terms of estimated contract sum) obtained by us during the Track Record Period and up to the Latest Practicable Date. For further details, please refer to the paragraph headed "Projects on hand" above in this section. We believe that the award of this sizeable project by Sanfield to us is a recognition of our service quality and reliability as demonstrated in our previous projects. Besides, as at the Latest Practicable Date, we had a total of 57 submitted tenders that were still pending tender results, among which, 48 projects are based on tender invitations from Sanfield.

- Prior to our admission as an approved subcontractor of Sanfield in 2018, we participated in projects initiated by Developer I mainly as a subcontractor engaged by Customer A. After we became an approved subcontractor of Sanfield in 2018, we have broader exposure to tender opportunities for projects initiated by Developer I as we started receiving tender invitations from Sanfield directly. Meanwhile, as Customer A was focused on project supervision and administration and generally outsourced the site works involved, our executive Directors believe that whenever Customer A obtains a project from Sanfield, they would continue outsourcing the site works involved to their subcontractors, especially those who have track record in delivering quality works and established long-term business relationship with Customer A. During the Track Record Period, Customer A would generally seek pre-bid quotation from our Group before they submitted their tenders to Sanfield. Since Kwong Luen Engineering became an approved subcontractor of Sanfield in 2018, whenever a new tender opportunity from Sanfield arises, it is our own internal practice to first check whether Customer A had previously sought pre-bid quotation from our Group for the same project. If a pre-bid quotation had already been provided by our Group to Customer A, we would then refrain from tendering for the same project according to our internal practice. On the other hand, if our Group had not received any prior request for pre-bid quotation from Customer A, we may proceed to submit tender to Sanfield for such project, taking into account, among other factors, its available resources including manpower, machinery and working capital. Further, Customer A has indicated that we were able to fulfil their project requirements and specifications in our past cooperation. Leveraging our established business relationship with Customer A dated back to 1996 and our service quality demonstrated in our previous projects, our executive Directors consider that as long as we can maintain our service capacity and work quality to cater to the needs of Customer A, we are well-positioned to receive tender invitations from Customer A for their projects and it is unlikely that they would cease or materially reduce their business engagements with us solely due to our direct business relationships with Sanfield.

- Apart from Sanfield, some of our major customers during the Track Record Period are reputable construction contractors which are subsidiaries of major private property developers in Hong Kong. For example, Customer C and Customer D are construction contractors being wholly-owned by Developer C and Developer D, respectively. Our executive Directors considered that our working relationship with such construction contractors owned by property developers has broadened our exposure to business opportunities in the private sector foundation works.

- We are an active player in the foundation industry. During the Track Record Period, we experienced a strong demand for our services from those projects initiated by Developer I. In the event that our project engagement originated from Developer I substantially reduced, our Group would have the capacity and know-how to handle more projects originating from other developers, such as Developer C and Developer D, in view of the expected growth of demand for foundation works in Hong Kong according to the F&S Report. For details, please refer to the paragraph headed "Industry overview – Foundation industry overview" in this document.

- We have established a stable customer base including foundation works contractors and construction contractors which require foundation works services. Our management would discuss with our major customers to understand their forthcoming project plans and endeavor to allocate resources, as far as allowed, and accommodate their demands for our services. Hence, we have been able to capture business opportunities from our major customers when they arise.

- We are able to maintain our profitability as evidenced by the increase in our gross profit from approximately HK$19.5 million in FY2017/18 to approximately HK$33.2 million in FY2018/19 and further to approximately HK$52.2 million in FY2019/20, while reducing our reliance on our top customer during the Track Record Period (i.e. Customer A). In particular, the percentage of our revenue attributable to Customer A decreased from approximately 68.6% in FY2018/19 to approximately 54.8% in FY2019/20 and further to approximately 35.6% for the five months ended 31 August 2020.

- We have made consistent effort in expanding and diversifying our customer base. The number of customers which generated revenue to us increased from six in FY2017/18 to eight in FY2018/19 and further increased to 13 in FY2019/20. In 2019, we have established business relationship with Sunnic Engineering Limited. Sunnic Engineering Limited awarded two projects with estimated contract sum of approximately HK$108.1 million and HK$5.4 million, respectively, to our Group during the Track Record Period. For further details of Sunnic Engineering Limited, please refer to the paragraph "Further information on our top customers" above in this section.

- As at the Latest Practicable Date, we had 16 projects on hand with an aggregate of approximately HK$468.1 million yet to be recognised as revenue after the Latest Practicable Date, among which, approximately 99.9% (i.e. approximately HK$467.7 million) are expected to be derived from our customers other than Customer A. This illustrates our continuous efforts in diversifying our sources of projects.

- Apart from Sanfield, we intend to strengthen our relationships with main contractors which are group members of major private property developers. During the Track Record Period, we had submitted 23 tenders to Customer C (including its fellow group members) and 26 tenders to Customer D (including its fellow group members). We target to be more proactive in approaching Customer C and Customer D for more business opportunities, especially for sizeable projects, following the expansion of our service capacity. We consider that both Customer C and Customer D have robust demand for large scale foundation works as they are the group members and preferred main contractors of two major private property developers in Hong Kong, respectively. Our executive Directors believe that we will have better prospects to obtain additional projects from these two main contractors if we can demonstrate that we have sufficient service capacity to handle multiple sizeable projects simultaneously on top of our existing operation scale.

- There were certain new potential customers which had previously invited us to tender for their projects and yet our tenders submitted were unsuccessful. Although these potential customers did not engage us eventually, they had nevertheless indicated their preliminary interest in building up business relationships with us by giving us the opportunities to participate in their tender selection process. We have shortlisted a total of 12 new potential customers who had previously given us tender invitations, and we target to inform them about our expansion plan following the **[REDACTED]**. Our executive Directors believe that, if given the tender opportunities, our upcoming tenders will be considered more favourably after the **[REDACTED]** in light of our status as a **[REDACTED]** company and our stronger internal resources for undertaking foundation works projects.

- It is our plan to deploy more resources for competing for foundation works originated from the public sector. For further details, please refer to the paragraph headed "Business strategies – Competing for foundation projects and expanding our market share" above in this section. Going forward, we will devote more efforts in monitoring the gazettes and different Government websites for new and upcoming public sector projects which involve foundation works and actively approach the main contractors which have obtained such projects.

Top customers who were also our suppliers (and subcontractors)

When we undertake projects for our customers, there may be occasions where our customers supply certain materials and other services to us under the same projects and subsequently deduct such amounts in the relevant payment certificates issued to us. Such procurement from our customers mainly included purchase of materials such as concrete and metal parts, arrangement of waste disposal services, rental of machinery and supply of fuel.

While the formal contracts with our customers generally do not impose specific condition or requirement on us to procure specific types of materials and/or services from them for the use in their projects, our customers may in practice supply certain materials and other services to us for the use in their projects at our costs. In respect of the purchase of our Group, there were no material differences in the pricing terms charged by our customers who were also our suppliers and/or subcontractors and that charged by our other suppliers/subcontractors. According to the F&S Report, it is common in the foundation industry for the main contractors to provide the requisite materials to its subcontractors and assist them in waste disposal. The main contractor would subsequently deduct such amounts in the relevant payment certificates issued to the subcontractors. Based on the F&S Report, main contractors adopted the aforesaid arrangements mainly for the purpose of (i) better ensuring the materials procured and used in the projects fulfil their specifications and standards; and (ii) maintaining the logistical efficiency for the entire project sites by centralising the waste disposal of its subcontractors for different parts of works under the building developments.

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we incurred approximately HK$28.6 million, HK$51.6 million, HK$109.3 million and HK$79.2 million, respectively, for the procurement of materials and other services from our customers.

The following table sets forth the details of our transactions with those customers who supplied materials and other services to us with procurement amounts representing over 0.5% of our cost of sales for any financial year/period during the Track Record Period:

	FY2017/18		FY2018/19		FY2019/20		Five months ended 31 August 2020	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Customer A								
Revenue derived and approximate % of our total revenue	112,688	66.2	187,314	68.6	221,827	54.8	78,770	35.6
Procurement amounts and approximate % of our cost of sales	27,586	18.3	48,900	20.4	34,914	9.9	13,351	7.0
– Materials	14,213	9.4	40,821	17.0	27,452	7.8	100	0.1
– Waste disposal services	13,373	8.9	8,079	3.4	7,462	2.1	13,251	6.9
Gross profit margin	–	16.3	–	16.5	–	17.0	–	19.7
Customer B								
Revenue derived and approximate % of our total revenue	44,574	26.2	63,787	23.4	71,735	17.7	83,768	37.9
Procurement amounts and approximate % of our cost of sales	1,058	0.7	1,608	0.7	34,420	9.8	47,140	24.5
– Materials	–	–	–	–	34,323	9.8	47,140	24.5
– Subcontracting fees *(Note)*	–	–	–	–	97	Negligible	–	–
– Waste disposal services	–	–	1,608	0.7	–	–	–	–
– Rental of machinery	1,058	0.7	–	–	–	–	–	–
Gross profit margin	–	0.9	–	2.4	–	4.0	–	4.8
Sunnic Engineering Limited								
Revenue derived and approximate % of our total revenue	–	–	–	–	70,165	17.3	16,228	7.3
Procurement amounts and approximate % of our cost of sales	–	–	–	–	38,780	11.0	8,974	4.7
– Materials	–	–	–	–	38,002	10.8	8,925	4.7
– Waste disposal services	–	–	–	–	267	0.1	49	Negligible
– Rental of machinery	–	–	–	–	511	0.1	–	–
Gross profit margin	–	–	–	–	–	12.3	–	23.1
Lik Shing Engineering Company Limited								
Revenue derived and approximate % of our total revenue	86	0.1	2,097	0.8	8,909	2.2	19,086	8.6
Procurement amounts and approximate % of our cost of sales	–	–	–	–	60	Negligible	7,031	3.6
– Materials	–	–	–	–	60	Negligible	7,031	3.6
Gross profit margin	–	8.8	–	7.7	–	7.6	–	11.9

Note: We procured an insignificant amount of subcontracting services (i.e. approximately HK$97,000) from Customer B in FY2019/20 as we needed additional workers to assist us in performing certain site works in a project for Customer B according to the project schedule, and Customer B could promptly arrange such workers for us on a one-off basis. Save as the aforesaid, we had not procured any subcontracting services from Customer B during the Track Record Period and up to the Latest Practicable Date.

Our business relationship with Customer B commenced when it awarded its first project to our Group in early 2017. As Customer B was then a new customer of our Group, we had factored in a relatively low profit margin in determining the tender price for the potential projects from Customer B since we were keen to develop our business relationship with Customer B. Customer B is a subsidiary of a company listed on the Main Board of the Stock Exchange (the "**Customer B Holdco**") which is principally engaged in undertaking foundation works in Hong Kong. According to the F&S Report, Customer B Holdco was one of the five largest (in terms of revenue) foundation works subcontractors in Hong Kong in 2019. Having considered (i) the company scale and market presence of Customer B in the foundation industry; (ii) our consistent efforts in expanding and diversifying our customer base; and (iii) our prospects of obtaining additional tender invitations from Customer B, our executive Directors believe that it is in our interest to adopt a more competitive pricing in order to secure the projects from Customer B. In line with our past practice, we would generally offer a more competitive pricing to new potential customers, and subsequently we would start factoring in a higher profit margin for the new tenders to such customers once we believe that we have built up a stable business relationships with them. This is evidenced by the gradual increase in our gross profit margin attributable to Customer B from approximately 0.9% for FY2017/18 to approximately 4.0% for FY2019/20 and further to 4.8% for the five months ended 31 August 2020. Our Group had four projects on hand with Customer B as at the Latest Practicable Date with estimated average gross profit margin of approximately 6%. While we generally aim at factoring a higher profit margin for new tenders with our customers once we have built up a stable relationship with them, the pricing of our services is determined on a case-by-case basis having regard to, amongst other factors, complexity of the project, availability of our manpower and resources, subcontracting fees, estimated cost for waste disposal, etc. For further information on our pricing strategy, please refer to the paragraph headed "Pricing strategy" in this section below. In particular, during the tender selection process, our customers (including Customer B) may negotiate with us on adjustment to our tender price before they decide to award the projects to us. As such, we cannot guarantee that our Group can maintain or increase our gross profit margin attributable to Customer B in those potential projects that they may invite us to tender for in the future.

With reference to the latest annual report of Customer B Holdco, Customer B Holdco recorded a revenue growth of approximately 11.2% for FY2019/20 and a decreasing gross profit margin from approximately 12.1% for FY2017/18 to approximately 1.0% for FY2019/20. Meanwhile, our Group had achieved a growth in revenue attributable to Customer B of approximately 43.1% and 12.5% for FY2018/19 and FY2019/20, respectively. In addition, our group also recorded an increase in gross profit margin attributable to Customer B from approximately 0.9% for FY2017/18 to approximately 4.0% for FY2019/20. The revenue derived by our Group from Customer B (equivalent to Customer B's subcontracting charges) only accounted for approximately 6.3%, 15.0% and 14.2% of Customer B Holdco's total direct costs for FY2017/18, FY2018/19 and FY2019/20, respectively. As the subcontracting fees charged by us to Customer B represented an insignificant portion of their direct costs, our executive Director consider that our engagements with Customer B were unlikely to be a major factor affecting their overall profitability. With reference to the document of Customer B Holdco, apart from subcontracting charges, the major components of its direct cost included materials, staff costs and transportation expenses. Therefore, the fluctuation of the gross profit margin of Customer B maybe subject to its internal control of direct costs in project management. Further, based on the latest annual report of Customer B Holdco, the decrease in the gross profit margin of Customer B was mainly attributable to their continuing proactive pricing strategy in response to increasingly competitive market conditions and an increase in their direct costs incurred due to unexpected complexity arising from construction works for certain construction projects as well as delays in certain projects, of which our Group was not involved. Based on the aforesaid, our executive Directors consider that while Customer B has been one of our major customers, there is no close correlation in the profitability and financial performance between Customer B and us. As such, the decrease in the profitability of Customer B is not a meaningful indicator of our prospects or business performance in the future, given that (i) the pricing strategy adopted by us may differ from Customer B; and (ii) we had not encountered any material cost overrun due to unexpected complexity in our projects during the Track Record Period.

Our executive Directors noted that while we had started factoring in a higher profit margin for Customer B's project opportunities, Customer B became loss-making for FY2019/20 based on publicly available information. Our executive Directors believe that while we had been factoring in a higher profit margin, our tender price remained competitive, given that our gross profit margin attributable to Customer B remained substantially lower than our overall gross profit margin even for FY2019/20 and the five months ended 31 August 2020. In addition, our executive Directors believe that, regardless of whether Customer B is profitable or loss-making, it would still seek to engage subcontractors at low pricing but with high work quality, based on the supply and demand of the relevant subcontracting services in the market from time to time. While we do not have information as to the details of tender submissions provided by our competitors to Customer B, our executive Directors believe that it was not surprising for Customer B to accept our increased pricing when its financial performance was deteriorating, because: (i) as mentioned above, our executive Directors believe that our pricing remained competitive even after we factored in a higher profit margin; and (ii) our executive Directors believe that we are able to perform high-quality foundation works based on our competitive strengths as discussed in the section headed "Business – Competitive strengths", and as evidenced by the fact that we were admitted as one of Sanfield's approved subcontractors in 2018.

For further details of our Group's fluctuation in revenue and gross profit margin over the Track Record Period, please refer to the section headed "Financial information – Period-to-period comparison of results of operations" in this document.

PRICING STRATEGY

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 material inaccurate cost estimation or cost overruns may adversely affect our financial results" in this document for further details of the associated risks in this regard. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we did not experience any loss-making projects as a result of material inaccurate cost estimation or cost overruns.

In order to minimise the risk of inaccurate cost estimation and cost overruns, 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 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 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; (ix) the estimated cost for waste disposal; and (x) 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) credit history and financial track record of our customer; (iii) the prospect of obtaining future contracts from our customer; (iv) any possible positive effect of our Group's reputation in the foundation industry; (v) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components; and (vi) the general market condition.

SALES AND MARKETING

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

Seasonality

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

OUR SUPPLIERS AND SUBCONTRACTORS

Characteristics of our suppliers and subcontractors

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; (iii) suppliers of waste disposal services; and (iv) suppliers of other miscellaneous items such as transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery as well as testing services. During the Track Record Period, our suppliers and subcontractors were located in Hong Kong and our purchases were denominated in Hong Kong dollars. Our suppliers and subcontractors generally grant us a credit term of 14 to 60 days.

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

							Five months ended 31 August			
	FY2017/18		FY2018/19		FY2019/20		2019		2020	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Subcontracting fees	55,506	44.2	102,239	50.6	130,720	43.2	31,871	69.4	49,905	29.5
Materials	23,848	19.0	52,651	26.1	114,193	37.8	8,941	19.5	74,235	43.9
Waste disposal services	40,849	32.5	40,726	20.2	45,062	14.9	2,965	6.5	37,049	21.9
Others *(Note)*	5,350	4.3	6,227	3.1	12,360	4.1	2,177	4.6	7,987	4.7
Total	125,553	100.0	201,843	100.0	302,335	100.0	45,954	100.0	169,176	100.0

Note: These miscellaneous items mainly included transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery and testing services.

Please refer to the paragraph headed "Financial information – Key factors affecting our results of operations and financial condition – Fluctuation in our cost of sales" in this document for a discussion of the fluctuation in our purchases from our suppliers and subcontractors 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 pre-bid quotations from our suppliers and/or subcontractors in making our cost estimation during the tender phase. We may 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 we generally take into account our overall cost of providing our services to customers when determining our tender price.

Our suppliers

Principal terms of engagement

Suppliers of materials

We engage our suppliers of materials 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 unit price, the quantity, delivery date, product specification and types of materials we required. The purchased materials are generally delivered directly to the project sites and the transportation costs for the materials supplied are generally borne by our suppliers of materials.

The major types of materials sourced from our suppliers of materials included metal parts and concrete. We typically arrange sample inspection on the materials upon their arrival. Any materials that fail to comply with the specifications or standards provided in the purchase order will be returned to the suppliers of materials for replacement. Our suppliers of materials charge us based on the total quantity of our purchase.

Suppliers of other miscellaneous items

We also engage our suppliers to provide other miscellaneous items such as transportation of machinery, rental of machinery, supply of fuel, repair and maintenance of machinery and testing services. Our purchase orders generally specify the scope of services required and delivery date. We have not committed to any minimum purchase amount with these suppliers.

Suppliers of waste disposal services

Our waste disposal expenses mainly included (i) waste disposal fees for disposing wastes at waste disposal facilities designated by the Government (the "**Government Charges**") including public fill reception facilities and sediment disposal which are regulated by the CEDD ("**Government Facilities**"); and (ii) waste disposal fees for disposing wastes at fill reception facilities managed by private limited companies or other large scale construction sites that allow for sand and/or soil disposal for land reclamation/backfilling purposes ("**Non-Government Sites**"); and the associated transportation fees for the aforementioned types of waste disposal. To a lesser extent, the waste disposal expenses also included expenses for waste disposal associated services such as rental expenses for motor vehicles from third party service providers for transportation of waste within construction sites.

Waste disposal at Government Facilities

The waste disposal expenses at Government Facilities mainly included (i) Government Charges; and (ii) transportation fees for the waste disposal. Depending on the terms of engagements with our customers, (a) Government Charges were borne by the relevant customers while the transportation fees were borne by us; or (b) both the Government Charges and transportation cost (collectively, "**Full Cost**") were borne by us.

Under the Waste Disposal Ordinance and its subsidiary regulations, particularly the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong), a main contractor who undertakes construction work with a value of HK$1,000,000 or above under a contract is required to establish a billing account for waste disposal solely in respect of that contract. All waste disposal at public fill reception facilities, sorting facilities, landfills and outlying islands transfer facilities under the contract will be charged under the billing account held by the main contractor.

During the Track Record Period, some of our construction wastes were disposed to public fill reception facilities such as Tseung Kwan O Area 137 Fill Blank, Tuen Mun Area 38 Fill Blank and Chai Wan Public Fill Barging Point (collectively, the "**Public Fill Reception Facilities**"). Based on the charging scheme of waste disposal fees for disposing wastes at the Public Fill Reception Facilities publicly available from the website of the Environment Protection Department, disposal of construction wastes at these Public Fill Reception Facilities were charged at HK$27 per tonne prior to 7 April 2017 and HK$71 per tonne from 7 April 2017 onwards. All construction wastes disposed by us at the Public Fill Reception Facilities were charged under the billing account for waste disposal maintained by the relevant main contractor of the project. The allocation of the waste disposal fees charged by the Public Fill Reception Facilities varied on a project-by-project basis between us and our customers depending on the negotiations.

During the Track Record Period, the Government Charges for waste disposal at Public Fill Reception Facilities for some of our projects were borne by the relevant customer/main contractor of the projects while the transportation fees were borne by us. For the other projects undertaken by us during the Track Record Period, the Full Cost were borne by us.

During the Track Record Period, we also disposed dredged sediment, which mainly refers to mud disposal, to the open sea which is regulated by the CEDD. Based on information available on the CEDD's website, disposal of sediment with low containment levels is charged at HK$1.92 per cubic metre whereas disposal of all other sediment is charged at HK$96 per cubic metre.

During the Track Record Period, sediment disposal fees charged by the CEDD were generally borne by the relevant customer/main contractor except for Project No. #02 under which the sediment disposal fees charged by the CEDD were borne by us. For Project No. #02, we paid directly to the Hong Kong Government the sediment disposal fees incurred thereunder by cheque.

For all waste disposal at Government Facilities, we were responsible for selecting and procuring services from waste disposal service providers mainly for delivering wastes from construction sites to the relevant Government Facilities.

Waste disposal at Non-Government Sites

During the Track Record Period, we also disposed construction wastes to fill reception facilities managed by private limited companies or other large scale construction sites that allow for sand and/or soil disposal for land reclamation/backfilling purposes such as Airport Three Runway System ("**Non-Government Sites**"). The total waste disposal cost including transportation cost and waste disposal fees charged by Non-Government Sites were generally lower than the rate of disposal at the Government Facilities if we are responsible for the Full Cost. Before disposing wastes to other large scale construction sites that allow for sand and/or soil disposal for land reclamation/backfilling purposes, we would review the relevant approval letters obtained by these sites in accepting filling materials for reclamation/backfilling to ensure the legality of waste disposal to such Non-Government Sites.

For waste disposal at Non-Government Sites, the waste disposal fees charged by the Non-Government Sites and associated transportation fees were borne by us and we were responsible for selecting and procuring services from waste disposal services providers whose charges shall have factored in the waste disposal fees charged by the Non-Government Sites and the transportation costs for delivering wastes from construction sites to the Non-Government Sites.

Upon customer's request, our customer may offer to us that they would arrange for the transportation and disposal of wastes to its other construction sites for backfilling purpose. In that regard, the customer would deduct the amount of fees incurred therefrom in the relevant payment certificates issued to us.

Factors considered in choosing our waste disposal facilities

As we prepare our tender submission and negotiate with our customers during the tender selection process, our executive Directors would assess the proportion of construction wastes to be disposed at Government Facilities and Non-Government Sites based on the following factors: (i) the waste disposal fees charged by each type of waste disposal facilities; (ii) the availability of suitable Non-Government Sites during the relevant project period; (iii) geological conditions of the construction sites from which the wastes are generated; (iv) the types and components of wastes involved. In particular, certain types of mud are required to be disposed as dredged sediment to the open seas as regulated by the CEDD; and (v) the distance between the relevant construction site and the waste disposal facility.

If, based on our assessment and negotiation with customers, a substantial proportion of wastes generated from a project is expected to be disposed to Government Facilities and it is agreed that our Group shall be responsible for the Government Charges, we would take into account the estimated amount of Government Charges to be incurred when we propose the estimated contract sum of the project to the customer. As the Government Charges charged by the Public Fill Reception Facilities were charged under the billing account maintained by the relevant customer/main contractor, such customer/main contractor would deduct such amount of waste disposal fees paid by them on behalf of us in the relevant payment certificates issued to us. Based on the charging scheme of waste disposal fees for disposing wastes at Public Fill Reception Facilities publicly available from the website of the Environment Protection Department, the executive Directors understand that there was no mark-up in the Government Charges charged by our customer/main contractor to us for disposing wastes at Public Fill Reception Facilities. Alternatively, if our customer/main contractor agrees to bear the Government Charges at its own costs, we would reflect the same in our proposed estimated contract sum in exclusion of the estimated amount of Government Charges.

If, based on our assessment and negotiation with customers, a substantial proportion of wastes generated from a project are expected to be disposed to Non-Government Sites, we would generally factor in a lower rate in our pricing for arranging waste disposal because the unit cost per tonne of waste disposed to Non-Government Sites are generally lower as compared to Government Facilities. Nevertheless, there were occasions that the Non-Government Sites were not readily available during the project period and we would have to dispose some of our wastes at Public Fill Reception Facilities instead. In such circumstances, our customers would generally bear the Government Charges without deducting the relevant costs from their payments to us provided that the amount of waste disposed to Government Facilities is relatively low in proportion compared to the wastes disposed to Non-Government Sites.

The following table sets forth a breakdown of the waste disposal expenses incurred by our Group during the Track Record Period by type of waste disposal sites:

		FY2017/18				FY2018/19				FY2019/20				Five months ended 31 August 2020			
		Weight	Weight	Amount	Weighted unit cost	Weight	Weight	Amount	Weighted unit cost	Weight	Weight	Amount	Weighted unit cost	Weight	Weight	Amount	Weighted unit cost
		tonne	*%*	*HK$'000*	*HK$/tonne*	*tonne*	*%*	*HK$'000*	*HK$/tonne*	*tonne*	*%*	*HK$'000*	*HK$/tonne*	*tonne*	*%*	*HK$'000*	*HK$/tonne*
Government Facilities	Group responsible for transportation fees only	456,632	69.7	22,770	50	346,602	44.7	13,181	38	549	0.1	15	28	720	0.1	27	37
	Group responsible for the Full Cost *(Note 1)*	186,142	28.4	17,363	93	153,690	19.8	14,621	95	148,144	17.2	14,276	96	183,104	29.4	15,658	86
Non-Government Sites		12,213	1.9	577	47	274,781	35.5	12,391	45	710,393	82.7	30,406	43	439,278	70.5	21,194	48
Others *(Note 2)*				139				533				365				170	
	Total	654,987	100.0	40,849		775,073	100.0	40,726		859,086	100.0	45,062		623,102	100.0	37,049	

Notes:

1. Full Cost includes transportation fees and waste disposal fees charged by the Public Fill Reception Facilities/sediment disposal fees charged by the CEDD.

2. Others refer to waste disposal associated services such as rental expenses for motor vehicles from third party service providers for transportation of waste within construction sites.

The total weight of waste disposal by our Group has increased from approximately 655,000 tonnes for FY2017/18 to approximately 775,000 tonnes for FY2018/19, and further increased to approximately 859,000 tonnes for FY2019/20. The total weight of our Group's waste disposal for the five months ended 31 August 2020 was approximately 623,000 tonnes. The construction wastes generated from the operations of our Group mainly included sand, soil and sediment and the quantity of waste generated for the relevant financial year/period mainly depended on (i) the work progress of our projects as these construction waste mainly arises from ELS works including loosening and excavating of soil from the ground; (ii) the geological conditions of the project sites; and (iii) the scale of excavation performed at the project sites.

Despite there was an increase in our Group's total weight of waste disposal from FY2017/18 to FY2018/19, our waste disposal expenses slightly decreased from approximately HK$40.8 million for FY2017/18 to approximately HK$40.7 million for FY2018/19. Other than dredged sediment that are restricted to be disposed to the open sea floor area by the CEDD, we can generally choose to dispose the waste to Government Facilities or Non-Government Sites. In FY2018/19, we disposed approximately 35.5% of our waste to Non-Government Sites in terms of weight when compared to only approximately 1.9% in FY2017/18 as our executive Directors understand that there was an increasing demand for waste from large scale construction sites including Airport North Commercial District and Airport Three Runway System for land reclamation which required soil and sand in FY2018/19. Our Group had disposed our construction wastes at the site of Airport North Commercial District for land reclamation works and the fill collection point established at the River Trade Terminal in Tuen Mun for land reclamation works at the Airport Three Runway System. The weighted unit cost of disposal to Non-Government Sites was approximately HK$45 per tonne in FY2018/19, which has a difference of approximately HK$50 per tonne as compared to disposal at Government Facilities in Full Cost of approximately HK$95 per tonne in FY2018/19. Owing to the lower weighted unit cost per tonne for waste disposal at Non-Government Sites, our executive Directors consider that the increase in proportion of waste disposal at Non-Government Sites is the reason why we could maintain our waste disposal expenses for FY2018/19 at a level similar to FY2017/18 even though the total weight of waste disposed by our Group was higher for FY2018/19.

Our waste disposal expenses slightly increased from approximately HK$40.7 million for FY2018/19 to approximately HK$45.1 million for FY2019/20, which was mainly attributable to (i) an increase in our Group's total weight of waste disposal from approximately 775,000 tonnes for FY2018/19 to approximately 859,000 tonnes for FY2019/20; and (ii) partially offset by an increase in proportion of waste disposal at Non-Government Sites, which has a lower weighted unit cost per tonne as compared to that of Government Facilities in Full Cost, from approximately 35.5% for FY2018/19 to approximately 82.7% for FY2019/20.

The total weight of waste we disposed to the Government Facilities for which our Group was only responsible for transportation fees decreased from approximately 457,000 tonnes for FY2017/18 to approximately 347,000 tonnes for FY2018/19, and further decreased to approximately 549 tonnes for FY2019/20. The overall decrease throughout the three financial years ended 31 March 2020 was mainly due to (i) there were less occasions where our customers agreed to bear the Government Charges at their own costs as executive Directors believe that our customers were also aware of the increasing demand for waste from large scale construction sites. Taking into consideration the relatively lower weighted unit cost per tonne for waste disposal at Non-Government Sites as compared to that of waste disposal at Government Facilities at Full Cost, our executive Directors were inclined to dispose our construction wastes to Non-Government Sites subject to their availability; and (ii) the decrease in the weight of sediment disposal throughout the three financial years ended 31 March 2020. For sediment disposal, the sediment disposal fees charged by the CEDD were generally borne by the relevant customer/main contractor during the Track Record, except for Project No. #02.

The weighted unit cost of the waste we disposed to the Government Facilities for which our Group was only responsible for transportation cost decreased from approximately HK$50 per tonne for FY2017/18 to approximately HK$38 per tonne for FY2018/19, and further decreased to approximately HK$28 per tonne for FY2019/20. Our executive Directors consider that the decrease was mainly due to the decrease in weight of sediment disposal as mentioned above. According to the F&S Report, the transportation fees for sediment disposal at open sea floor disposal area generally charges higher unit cost per tonne than transportation fees for waste disposal at Public Fill Reception Facilities. Therefore, the decrease in weight of sediment disposal resulted in the decrease in the relevant weighted unit cost per tonne during the three financial years ended 31 March 2020.

Top suppliers

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total purchases (excluding subcontracting fees) from our top supplier amounted to approximately 39.4%, 49.1%, 22.6% and 39.5% respectively, while the percentage of our total purchases (excluding subcontracting fees) from our top five suppliers combined amounted to approximately 84.8%, 87.0%, 82.8% and 80.2% respectively. The following tables set out information of our top five suppliers FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020:

FY2017/18

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	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Mainly supply of materials and assisting in waste disposal arrangement	Since 1996	–(Note 1)	27,586	39.4
2	Supplier A(Note 2)	A sole proprietorship based in Hong Kong, the principal activities of which include providing waste disposal services	Mainly supply of waste disposal services	Since 2004	19 days; by cheque	13,760	19.6
3	Supplier B	A company engaged in providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2017	60 days; by cheque	13,641	19.5
4	Supplier C (Note 3)	A company engaged in supplying concrete in Hong Kong	Mainly supply of concrete	Since 2017	18 days; by cheque	2,255	3.2
5	Supplier D	A sole proprietorship based in Hong Kong, the principal activities of which include supplying fuel	Mainly supply of fuel	Since 2018	30 days; by cheque	2,202	3.1
				Top five suppliers combined		59,444	84.8
				All other suppliers		10,603	15.2
				Total purchases (excluding subcontracting fees)		70,047	100.0

Notes:

1. Customer A was one of our top customers during the Track Record Period. Customer A was also one of our top suppliers for FY2017/18. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers (and subcontractors)" above in this section.

2. Supplier A is a sole proprietorship and has commenced its business in May 1992. In March 2020, Supplier A has ceased its business. There was no outstanding amount due from us to Supplier A as at the Latest Practicable Date.

3. According to the 2019/20 annual report of Developer I Listco, Supplier C is a company incorporated in Hong Kong, which is owned as to 50% beneficially by Developer I and principally engaged in the manufacturing of concrete.

FY2018/19

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	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Mainly supply of materials and assisting in waste disposal arrangement	Since 1996	– *(Note 1)*	48,900	49.1
2	Supplier B	A company engaged in providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2017	60 days; by cheque	24,431	24.5
3	Supplier E	A sole proprietorship based in Hong Kong, the principal activities of which include providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2019	35 days; by cheque	6,590	6.6
4	Supplier D	A sole proprietorship based in Hong Kong, the principal activities of which include supplying fuel	Mainly supply of fuel	Since 2018	30 days; by cheque	3,416	3.4
5	Supplier C *(Note 2)*	A company engaged in supplying concrete in Hong Kong	Mainly supply of concrete	Since 2017	18 days; by cheque	3,340	3.4
				Top five suppliers combined		86,677	87.0
				All other suppliers		12,927	13.0
				Total purchases (excluding subcontracting fees)		99,604	100.0

Notes:

1. Customer A was one of our top customers during the Track Record Period. Customer A was also one of our top suppliers for FY2018/19. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers (and subcontractors)" above in this section.

2. According to the 2019/20 annual report of Developer I Listco, Supplier C is a company incorporated in Hong Kong, which is owned as to 50% beneficially by Developer I and principally engaged in the manufacturing of concrete.

FY2019/20

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	Sunnic Engineering Limited	Subsidiary of a PRC-based company listed in Hong Kong which is principally engaged in building construction works worldwide	Mainly supply of materials, assisting in waste disposal arrangement and machinery rental services	Since 2019	– (Note)	38,780	22.6
2	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Mainly supply of materials and assisting in waste disposal arrangement	Since 1996	– (Note)	34,914	20.3
3	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Mainly supply of materials, subcontracting of ELS works and pile cap construction and assisting in waste disposal arrangement	Since 2017	– (Note)	34,420	20.1
4	Supplier B	A company engaged in providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2017	60 days; by cheque	23,501	13.7
5	Supplier E	A sole proprietorship based in Hong Kong, the principal activities of which include providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2019	35 days; by cheque	10,435	6.1
				Top five suppliers combined		142,050	82.8
				All other suppliers		29,565	17.2
				Total purchases (excluding subcontracting fees)		171,615	100.0

Note: Customer A, Customer B and Sunnic Engineering Limited were our top customers during the Track Record Period. Customer A, Customer B and Sunnic Engineering Limited were also our top suppliers for FY2019/20. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers (and subcontractors)" above in this section.

Five months ended 31 August 2020

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	Customer B	Subsidiary of a company listed in Hong Kong which is principally engaged in undertaking foundation works in Hong Kong	Mainly supply of materials	Since 2017	–(Note)	47,140	39.5
2	Supplier B	A company engaged in providing waste disposal services in Hong Kong	Mainly supply of waste disposal services	Since 2017	60 days; by cheque	19,151	16.1
3	Customer A	A contractor company specialising in management of foundation works in Hong Kong	Mainly supply of materials and assisting in waste disposal arrangement	Since 1996	–(Note)	13,351	11.2
4	Sunnic Engineering Limited	Subsidiary of a PRC-based company listed in Hong Kong which is principally engaged in building construction works worldwide	Mainly supply of materials and assisting in waste disposal arrangement	Since 2019	–(Note)	8,974	7.5
5	Lik Shing Engineering Company Limited	Subsidiary of a company listed in Hong Kong which is principally engaged in foundation and site formation works in Hong Kong	Mainly supply of materials	Since 2018	–(Note)	7,031	5.9
				Total five suppliers combined		95,647	80.2
				All other suppliers		23,624	19.8
				Total purchases (excluding subcontracting fees)		119,271	100.0

Note: Customer A, Customer B, Sunnic Engineering Limited and Lik Shing Engineering Company Limited were our top customers during the Track Record Period. Customer A, Customer B, Sunnic Engineering Limited and Lik Shing Engineering Company Limited were also our top suppliers for the five months ended 31 August 2020. For further details, please refer to the paragraph headed "Our customers – Top customers who were also our suppliers (and subcontractors)" above in this section.

As at the Latest Practicable Date, save for 1,000,000 shares (representing approximately 0.08% of the total issued shares) in the holding company of Customer B, which is a company whose shares are listed on the Stock Exchange, held for passive investment purpose by Ms. Kwan, 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.

Some of our Group's top suppliers and/or subcontractors (including those major customers which supplied materials and other services to our Group under the same projects that they engaged us) during the Track Record Period were also the suppliers/subcontractors of our Group's top customers. For instance,

- Sunnic Engineering Limited also engaged Customer B, Subcontractor Group B and Subcontractor F as their subcontractors;

- Sanfield also engaged Customer A, Customer B and Sunnic Engineering Limited as their subcontractors and Supplier C as their supplier;

- Customer B also engaged Supplier E as its supplier; and

- Customer A also engaged Subcontractor C as their subcontractor.

Based on enquiries with the relevant customers and suppliers/subcontractors, there are no material differences in the pricing terms charged by the suppliers/subcontractors to our Group and to our customers, respectively.

Basis of selecting our suppliers

We generally procure materials and other services from our internal list of approved suppliers. In selecting our suppliers, we take into account various factors, including pricing, quality of materials or services provided, 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 31 August 2020, there were more than 20 approved suppliers of materials and more than 20 approved suppliers of other services on our internal list.

Our subcontractors

Principal terms of engagement

Depending on the availability of our labour resources and the types of specialised works involved, we may from time to time engage subcontractors to perform certain trades of works. During the Track Record Period, we engaged our subcontractors mainly for performing certain ELS works such as shoring works and certain pile cap construction such as steel reinforcement works and formwork erection works.

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

Scope of works

The subcontracting agreements generally set out the scope of works to be provided by our subcontractors. We require our subcontractors to complete the subcontracted works according to our customers' specifications, drawings and requirements.

Subcontracting fees

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 or schedule of rate and the actual quantities of work done.

Defects liability period

Our subcontractors shall be responsible for rectifying works defects arising from works subcontracted to them at their own expenses following the completion of the relevant subcontracted works to the satisfaction of the main contractor or project owner.

Payment arrangements

Our subcontractors are generally required to submit monthly progress payment applications to us setting out the details of their completed works in the preceding month. Depending on the terms of engagements with our subcontractors, we may directly settle the wages of the site workers deployed by our subcontractors and subsequently deduct such amounts in the relevant progress payment application issued to us by such subcontractors. According to the F&S Report, it is common for construction contractors to directly settle the wages of their subcontractors which will be subsequently deducted from the progress payment application issued by the subcontractors and the purpose of such arrangement is to offer better protection and ensure timely settlement of wages to the employees of the subcontractors. The table below sets forth a breakdown of the amount of site workers' wages that we directly settled on behalf of our subcontractors in our projects during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Subcontractor Group B	–	–	6,143	–
Subcontractor C	4,434	354	–	–
Subcontractor G	–	–	363	1,185
Subcontractor I	–	–	2,606	16
A subcontractor engaged by our Group mainly for ELS works	–	144	1,396	623
Others	–	39	634	718
Total	4,434	537	11,142	2,542

The Development Bureau of the Government is currently proceeding legislative work on the proposed Security of Payment Legislation ("**SOPL**") for the construction industry that aims to improve payment terms and payment delays, encourage rapid dispute resolution and increase cash flow of operators in the construction industry. For further details, please refer to the paragraph headed "Regulatory overview – F. Legislation expecting to come into force which may relate to our business" in this document.

Taking into account that (i) our suppliers and subcontractors generally grant us a credit period of 14 to 60 days; (ii) we generally settle payment to our suppliers and subcontractors within the credit period; and (iii) we have not adopted any "pay when paid" policy with our suppliers or subcontractors, our executive Directors confirmed that our payment practice has complied with the proposed SOPL during the Track Record Period and its implementation would not result in any material or adverse impact on our liquidity and financial performance.

Arrangements for materials and machinery

Materials are (i) provided by our subcontractors at their cost; or (ii) procured by us at our cost; or (iii) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted from our payment to our subcontractors. We generally require our subcontractors to provide and arrange for the necessary machinery 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.

Termination and liquidated damages

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.

Reasons for subcontracting arrangement

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the number of subcontractors engaged by our Group was 31, 32, 33 and 29, respectively. Our Directors confirm that subcontracting of works is in line with normal market practice in the Hong Kong foundation industry. During times when our labour resources are tightened 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 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 31 August 2020, there were more than 20 approved subcontractors on our internal list. When subcontracting services are required for a project, we typically obtain pre-bid 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.

Control over subcontractors

We remain accountable to our customers for the performance and quality of works 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, ISO 14001 and OHSAS 18001 standards respectively.

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

(i) our project management team conducts regular meetings with subcontractors' responsible personnel to review their performance and resolve any issues encountered in the course of their works;

(ii) our project management team reviews the works performed by our subcontractors on a continual basis during project implementation based on our quality manual and project quality plan. We assess the performance of our subcontractors based on their (i) ability to meet delivery schedules; (ii) response to our instructions; (iii) ability to perform during the defects 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.

Top subcontractors

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the percentage of our total subcontracting fees from our top subcontractors amounted to approximately 41.1%, 34.3%, 54.5% and 28.8% respectively, while the percentage of our total subcontracting fees from our top five subcontractors combined amounted to approximately 91.5%, 86.5%, 89.0% and 84.2% respectively. The following tables set out information of our top five subcontractors of FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020:

FY2017/18

Rank	Subcontractor	Principal business activities	Type of services purchased by us from the subcontractors	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the subcontractors	
						HK$'000	*%*
1	Subcontractor A	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works and pile cap construction	Since 2017	14 days; by cheque	22,815	41.1
2	Subcontractor Group B *(Note)*	A sole proprietorship and a company based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of ELS works	Since 2007	14 days; by cheque	14,048	25.3
3	Subcontractor C	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works and pile cap construction	Since 2016	14 days; by cheque	7,966	14.4
4	Subcontractor D	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of pile cap construction	Since 2017	14 days; by cheque	4,230	7.6
5	Subcontractor E	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works	Since 2017	14 days; by cheque	1,704	3.1
				Total five subcontractors combined		50,763	91.5
				All other subcontractors		4,743	8.5
				Total subcontracting fees		55,506	100.0

Note: Subcontractor Group B consists of a sole proprietorship and a limited company, which have a common management member during the Track Record Period.

FY2018/19

Rank	Subcontractor	Principal business activities	Type of services purchased by us from the subcontractors	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the subcontractors	
						HK$'000	*%*
1	Subcontractor F	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works and pile cap construction	Since 2017	14 days; by cheque	35,045	34.3
2	Subcontractor Group B *(Note)*	A sole proprietorship and a company based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of ELS works	Since 2007	14 days; by cheque	33,989	33.2
3	Subcontractor E	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works	Since 2017	14 days; by cheque	7,180	7.0
4	Subcontractor G	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of pile cap construction	Since 2016	14 days; by cheque	6,561	6.4
5	Subcontractor H	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works	Since 2018	14 days; by cheque	5,726	5.6
				Total five subcontractors combined		88,501	86.5
				All other subcontractors		13,738	13.5
				Total subcontracting fees		102,239	100.0

Note: Subcontractor Group B consists of a sole proprietorship and a limited company, which have a common management member during the Track Record Period.

FY2019/20

Rank	Subcontractor	Principal business activities	Type of services purchased by us from the subcontractors	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the subcontractors	
						HK$'000	*%*
1	Subcontractor Group B (Note)	A sole proprietorship and a company based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of ELS works	Since 2007	14 days; by cheque	71,196	54.5
2	Subcontractor I	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of ELS works and pile cap construction	Since 2018	14 days; by cheque	17,403	13.3
3	Subcontractor D	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of pile cap construction	Since 2017	14 days; by cheque	14,269	10.9
4	Subcontractor G	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of pile cap construction	Since 2016	14 days; by cheque	7,593	5.8
5	Subcontractor J	A company engaged in construction works in Hong Kong	Mainly subcontracting of pile cap construction	Since 2020	14 days; by cheque	5,888	4.5
				Total five subcontractors combined		116,349	89.0
				All other subcontractors		14,371	11.0
				Total subcontracting fees		130,720	100.0

Note: Subcontractor Group B consists of a sole proprietorship and a limited company, which have a common management member during the Track Record Period.

Five months ended 31 August 2020

Rank	Subcontractor	Principal business activities	Type of services purchased by us from the subcontractors	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the subcontractors	
						HK$'000	*%*
1	Subcontractor I	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of ELS works and pile cap construction	Since 2018	14 days; by cheque	14,382	28.8
2	Subcontractor J	A company engaged in construction works in Hong Kong	Mainly subcontracting of pile cap construction	Since 2020	14 days; by cheque	13,539	27.1
3	Subcontractor K	A company engaged in construction works in Hong Kong	Mainly subcontracting of pile cap construction	Since 2020	14 days; by cheque	9,132	18.3
4	Subcontractor G	A sole proprietorship based in Hong Kong, the principal activities of which include providing construction services	Mainly subcontracting of pile cap construction	Since 2016	14 days; by cheque	2,691	5.4
5	Subcontractor F	A company engaged in construction works in Hong Kong	Mainly subcontracting of ELS works and pile cap construction[(Note)]	Since 2017	14 days; by cheque	2,280	4.6
				Total five subcontractors combined		42,024	84.2
				All other subcontractors		7,881	15.8
				Total subcontracting fees		49,905	100.0

Note: Subcontractor F was also a material supplier of our Group. For the five months ended 31 August 2020, our procurement of subcontracting services and purchases of materials from Subcontractor F amounted to approximately HK$2.3 million and HK$2.5 million, respectively.

Saved as disclosed above, 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 our top five subcontractors during the Track Record Period.

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. Kwong Luen Engineering obtained certification certifying its quality management to be in conformance with the requirements of ISO 9001 standard. In conformity with the ISO 9001 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 would 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 expertise and experiences required. The project management team is headed by the site agent who is responsible for the overall management of the project, including liaising and communicating with our customers, coordinating and providing guidance to the other team members, overseeing the progress, budget and quality of services rendered. Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project implementation. After the review by our senior management team, 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. We have also from time to time required our suppliers to provide us with testing 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.

INVENTORY

In general, materials are procured by us based on our projects on hand and are delivered to our project sites to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventory during the Track Record Period.

MACHINERY AND MOTOR VEHICLES

We possess a fleet of machinery for use in our operation. We believe that our investment in machinery has placed us in a position to (i) cater for foundation works of different scales and complexities; (ii) deploy our own machinery which in turn would improve our efficiency and schedule planning; and (iii) reduce our reliance on suppliers in providing the required machinery for our projects which in turn would facilitate us in maintaining the competitiveness of our pricing. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we purchased machinery in the amount of approximately HK$8.8 million, HK$13.1 million, HK$12.1 million and HK$3.6 million at costs, respectively.

Our owned machinery mainly include:

(i) 

Excavators are mainly used for performing excavation works

(ii) 

Loaders are mainly used for moving construction materials

(iii) 

Crawler crane is mainly used for lifting and moving heavy materials

(iv) 

Bending machines are mainly used for bending and cutting of reinforcement bars for construction works

The following table sets out the details of our machinery:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**	**As at the Latest Practicable Date**
	No. of units	*No. of units*	*No. of units*	*No. of units*	*No. of units*
Excavator	53	75	89	95	97
Loader	5	7	9	9	11
Crawler crane	–	1	1	1	1
Bending machine	–	2	2	2	2
Total	58	85	101	107	111

We maintain an internal record of the usage of our machinery including the duration and the project for which the machinery is occupied. Based on such record, the following table sets out the utilisation rate of our machinery during the Track Record Period. The utilisation rate of our machinery is calculated as the total number of days for which our machinery were occupied at our work sites in a financial year/period, divided by the aggregate number of days that our machinery were occupied or left idle in the corresponding financial year/period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**Five months ended 31 August 2020**
	(%)	*(%)*	*(%)*	*(%)*
Utilisation rate				
Excavator	86.3	91.0	91.2	90.9
Loader	91.0	94.1	94.8	94.1
Crawler crane	–	98.2	98.3	97.6
Bending machine	–	62.0*(Note)*	84.2	98.4

Note: Our Group acquired our first bending machine in FY2018/19. Prior to the bending machine being put into operation, our Group had spent time on its installation, adjustment and testing as well as arranging trainings for our staff in order to familiarise them with the safe operation of such machine, resulting in its relatively lower utilisation rate of approximately 62.0% in FY2018/19.

The following table sets out the remaining useful life of our machinery as at 31 August 2020:

	Fully depreciated	Less than one year	One year to less than three years	Three years to less than five years	Five years or above
	No. of units	*No. of units*	*No. of units*	*No. of units*	*No. of units*
Excavator	16	10	19	20	30
Loader	2	–	3	2	2
Crawler crane	–	–	–	1	–
Bending machine	–	–	–	2	–
Total	18	10	22	25	32

Note: Based on the straight-line depreciation method adopting an annual depreciation rate of 15% under our accounting policy, the expected useful life of our machinery is 6.7 years.

Although our Directors consider that our existing machinery were in operative conditions in general, the probability and frequency of breakdown or malfunction of our existing machinery will increase as such machinery ages. Our Directors consider that continued investments in machinery and equipment are necessary in order to cope with our business development and increase our overall operational efficiency and capacity in performing our site works. As such, we plan to acquire additional machinery in the future, further information of which is disclosed in the paragraph headed "Business strategies" above in this section and the section headed "Future plans and **[REDACTED]**" in this document.

As at the Latest Practicable Date, our excavators and crawler crane are regulated machines under the NRMM Regulation. Pursuant to the Technical Circular, from 1 June 2019 onwards, contractors being invited to tender or to participate in all new capital works contracts of public work with an estimated contract value exceeding HK$200 million would only be allowed to deploy generators, air compressors, excavators and crawler cranes which carry approval labels for NRMM issued by the Environmental Protection Department. Among our existing regulated machines, 36 sets of our excavators and one set of crawler crane had obtained NRMM approval labels. For further details, please refer to the paragraph headed "Regulatory Overview – B. Environmental protection – NRMM Regulation" in this document.

Apart from the above, our Group owned four motor vehicles as at the Latest Practicable Date for delivering construction materials and transporting our project management staff and site workers.

If the works involve further subcontractors engaged by us, we generally require our subcontractors to provide the necessary machinery to be used in their works at their own costs. The cost for the provision of the required machinery by our subcontractors is generally included in our subcontracting fees.

Depending on the service capacity and availability of our machinery fleet as well as the types of machinery required, we may also lease certain machinery, such as crawler cranes and excavators, from the rental service providers. During the term of the lease, machinery operators may be deployed by the rental services providers to assist us in operating the leased machinery, such as crawler cranes. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, machinery rental costs incurred by us amounted to approximately HK$1.8 million, HK$0.6 million, HK$3.4 million and HK$1.8 million, respectively.

Safe keeping of machinery

Our machinery is generally stored at the construction sites of our ongoing projects from time to time unless the relevant machinery was under repair and maintenance. Under the arrangement of the main contractors, our construction sites are generally guarded by security personnel and equipped with hoarding and closed-circuit television security cameras to prevent unauthorised persons from entering the premises. As such, our executive Directors consider that our machinery is in proper custody while it is deployed to the construction sites.

Repair and maintenance

We continuously monitor the operating conditions of our owned machinery, based on which we make replacement and/or repair and maintenance decisions on an ongoing basis. Repair and maintenance works are carried out by external mechanics engaged by us as needed. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we incurred repair and maintenance expenses for our machinery and motor vehicles of approximately HK$0.9 million, HK$1.4 million, HK$2.0 million and HK$0.9 million, respectively.

INSURANCE

We undertook projects in the role of subcontractor during the Track Record Period. Our Directors confirmed that our foundation works were covered by the employees' compensation insurance, third party liability insurance and contractors' all risks insurance taken out by the main contractors for the entire construction projects. 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.

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

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 FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our total insurance premiums incurred were approximately HK$9,000, HK$23,000, HK$86,000 and HK$44,000, respectively. The increase in our insurance premiums from approximately HK$9,000 for FY2017/18 to approximately HK$23,000 for FY2018/19 was mainly attributable to the purchase of several third party liability insurance policies in FY2018/19 regarding the use of motor vehicles newly acquired by us. In FY2019/20, we were requested by a customer to facilitate its administrative works by taking out certain insurance policies for a project on its behalf, including (i) employees' compensation insurance policy covering the site workers at the project site; and (ii) third party liability insurance policies regarding the use of motor vehicles deployed by the customer. In addition, we have expanded our insurance coverage to cover site visits conducted by some of our project management staff and out-of-office work performed by our administrative staff in FY2019/20 and the five months ended 31 August 2020, thereby resulting in an increase in our total insurance premium incurred for FY2019/20 and the five months ended 31 August 2020. The increase in the amount of insurance premiums was not attributable to the workplace accidents occurred during the Track Record Period or the increase in accident rates of our Group from 2018 to 2019, given that such workplace accidents were covered by the employees' compensation insurance taken out by the main contractors which protected all employees of main contractors and subcontractors of all tiers working in the relevant construction sites.

Uninsured risks

Certain risks disclosed in the "Risk factors" section of this 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 140 employees (including our two executive Directors but excluding our three independent non-executive Directors). All our employees were stationed in Hong Kong. The following table sets out a breakdown of our employees by function:

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020	As at the Latest Practicable Date
General management	2	2	2	2	2
Project management	9	15	18	19	19
Finance and administration	3	3	4	4	5
Machinery operators	11	24	28	28	26
Site workers	33	73	69	87	88
	58	117	121	140	140

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 subsidise our employees to attend various training courses covering areas such as technical knowledge relating to the carrying out of foundation works, safety, first aid, regulatory compliance and environmental matters. Such training courses include our internal trainings as well as courses organised by external parties such as the Construction Machinery Technical Training Centre and other training service 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 with the Construction Industry Council, details of which are set out in the paragraph headed "Regulatory overview – A. Labour, health and safety – Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)" in this document. As at the

Latest Practicable Date, all of our employees carrying out construction works on construction sites were registered under the Construction Workers Registration Ordinance.

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 performance appraisal.

Our Group incurred staff costs (including Directors, and chief executive's remuneration, and salaries, wages and pension scheme contribution of our direct labours, administrative and back office staff) of approximately HK$21.6 million, HK$33.8 million, HK$45.5 million and HK$21.6 million for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, 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.

LICENCE AND QUALIFICATIONS

Given that all the necessary licences, permits or approval required for projects in which we are involved are arranged by the relevant main contractors, there is no particular licence, permit or approval required to be obtained by us in providing foundation works services as a subcontractor except the business registration. Meanwhile, subcontractors engaged under the public sector projects initiated by the Government, such as Housing Authority and CEDD, are required to possess registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. The Registered Specialist Trade Contractors Scheme comprises two registers, namely the Register of Specialist Trade Contractors and the Register of Subcontractors. For further details, please refer to the paragraph headed "Regulatory overview – D. Licensing/registration regime – Registered specialist trade contractors scheme ("**RSTCS**")" in this document.

As at the Latest Practicable Date, Kwong Luen Engineering was (i) a registered specialist trade contractor on the Register of Specialist Trade Contractors under the designated trade categories of concreting (Group 1), concreting formwork (Group 1) and reinforcement bar fixing (Group 1); and (ii) a registered subcontractor on the Register of Subcontractors under general civil works with trade specialties of earthwork and road drainage and sewer. The aforesaid registrations under the Registered Specialist Trade Contractors Scheme are due to expire on 19 August 2022.

Our executive Directors are of the view that our aforesaid registrations are adequate for our current business needs. As advised by the Legal Counsel, there is no material legal impediment in the renewal of the above 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 – B. Environmental protection" in this document.

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we incurred approximately HK$40.9 million, HK$40.8 million, HK$45.1 million and HK$37.0 million, respectively, directly in relation to the compliance with the applicable environmental requirements. Such amounts mainly included costs in relation to waste disposal services and compliance of our machinery with the relevant air pollution control requirements. We estimate that our annual cost of environmental compliance going forward will be consistent with our scale of operation and affected by our contracts with our 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 the 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 international standard in order to provide our employees with a safe and healthy working environment.

Our project management team is responsible for overseeing the implementation of our occupational health and safety policies and ensuring that we comply with applicable occupational health and safety standards and laws. 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 internal safety manual. Our workplace and safety rules identify common safety and health hazards and recommendations on prevention of workplace accidents. We also provide suitable personal protective equipment such as safety helmet and safety boots to our employees based on the type of works undertaken by them.

Our safety officer regularly provides guidance to our workers and subcontractors on proper and safe working practices. We may impose fine on or remove the subcontractor who has repeatedly breached the internal safety procedures from our internal approved list of subcontractors. Subcontractor which failed to rectify its breaches upon our requests will also 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 the novel coronavirus in Hong Kong since January 2020, we have implemented the following hygiene and safety related measures:

– requesting staff and workers to wear surgical masks both at office and works sites;

– 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 the novel coronavirus 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 novel coronavirus 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 the novel coronavirus, 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.

Confirmed cases of novel coronavirus at one of the project sites of our ongoing projects

In early December, several confirmed cases of novel coronavirus were reported at the project site of Project No. O02 located in Lam Tin (the "**Lam Tin Site**"). For further details on Project No. O02, please refer to the paragraph headed "Projects on hand" in this section. In order to contain the transmission of coronavirus and to facilitate disinfection at the Lam Tin Site, the Centre for Health Protection under the Department of Health in Hong Kong ordered all construction activities at the Lam Tin Site to be suspended from 9 December 2020 to 27 December 2020 (the "**Suspension Notice**"). In compliance with the Suspension Notice, our Group suspended all site works in relation to Project No. O02 during the relevant period.

Subsequently, in early January 2021, there were several new confirmed cases of novel coronavirus reported at the Lam Tin Site. The Centre for Health Protection under the Department of Health in Hong Kong again ordered all construction activities at the Lam Tin Site to be suspended from 4 January 2021 to allow thorough disinfection and cleaning activities to be carried out at the Lam Tin Site. Construction works at the Lam Tin Site have resumed since 22 January 2021. As instructed by the main contractor of Project No. O02, all construction workers at the Lam Tin Site were mandated to retake the coronavirus test and no construction workers shall be allowed to enter the Lam Tin Site without valid proof of negative coronavirus test result upon the resumption of construction activities at the Lam Tin Site. Further, the main contractor of Project No. O02 has announced a series of elevated social distancing measures to contain the transmission of coronavirus at the Lam Tin Site including, restricting the maximum number of workers in changing room, increasing the number of dining places and arranging different meal time for workers. Regular inspection will be performed by the CEDD at the Lam Tin Site to ensure the elevated social distancing measures are strictly implemented. Our executive Directors confirmed that all of the confirmed cases of novel coronavirus reported at the Lam Tin Site as at the Latest Practicable Date were related to the employees of other contractors at the Lam Tin Site and none of those were related to our employees or our subcontractors' employees. We were informed by the main contractor that they shall closely coordinate with the relevant working parties and make arrangement to ensure Project No. O02 can be proceeded and completed according to its original project schedule. Our executive Directors and administrative staff have been and will continue closely monitor the latest development at the Lam Tin Site and any potential impacts on Project No. O02 resulting therefrom.

Our executive Directors considered that the temporary suspension of work at the Lam Tin Site did not result in material business or financial impact to our Group, taking into consideration (i) the construction works affected by the temporary suspension of Project No. O02 were mainly related to certain start up as well as preparation works performed at the initial stage of the project, while the substantial part of construction works are scheduled to be performed in the first quarter of 2021. Therefore, our executive Directors are of the view that the temporary suspension of works did not result in any material adverse impact on the project schedule of Project No. O02; (ii) our Group may deploy additional resources to Project No. O02 to ensure timely completion of works; (iii) we were not aware of any forthcoming suspension order or notice in relation to Project No. O02 as at the Latest Practicable Date; and (iv) our executive Directors do not foresee any material adverse change to the estimated revenue or profit to be recognised from Project No. O02 resulting from the temporary suspension of work.

Impact of the outbreak of the novel coronavirus on our operations

Save as disclosed above and based on information available as at the Latest Practicable Date, our executive Directors consider that the outbreak of the novel coronavirus 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 cancellation of work orders from our customers. Further, our Group had not received any notification from the relevant customers that Project No. O01 and Project No. O03 would be materially delayed or suspended as a result of the outbreak of the novel coronavirus;

- we had not experienced any material delay in the settlement of payment to us by our customers as a result of the outbreak of the novel coronavirus;

- we had not experienced any material decline in the number of tender invitations received by us following the outbreak of the novel coronavirus;

- as at the Latest Practicable Date, our Group had a total of 57 tenders which were still undergoing tender selection process and pending tender result. In respect of these 55 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 the novel coronavirus;

- 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 novel coronavirus;

- 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 the novel coronavirus;

- our average monthly revenue recognised during the five months ended 31 August 2020 was approximately 195.3% higher than that for the five months ended 31 August 2019, while our average monthly gross profit during the five months ended 31 August 2020 was approximately 198.9% higher than that for the five months ended 31 August 2019;

- based on the unaudited management account of our Group for the three months ended 30 November 2020 and the corresponding period in 2019, our revenue and gross profit increased significantly, while our gross profit margin remained relatively stable for the three months ended 30 November 2020 as compared to the corresponding period in 2019. Our revenue recognised increased significantly for the three months ended 30 November 2020 as compared to the corresponding period in 2019 which was mainly attributable to our substantial amount of works performed for (i) Project No. #03, which contributed revenue of approximately HK$23.4 million for the three months ended 30 November 2020; and (ii) Project No. O11, which commenced in July 2020 and contributed revenue of approximately HK$46.3 million for the three months ended 30 November 2020; and

- according to the F&S Report, the outbreak of the novel coronavirus is expected to have limited impact on the demand for Hong Kong's foundation industry in the long run due to the fact that (i) the major construction projects in the pipeline are on-going as planned; and (ii) the general construction works in Hong Kong, ranging from roads, housings, 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 – Foundation industry overview" in this document.

In the event that the outbreak of the novel coronavirus 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 cash equivalent and trade receivables as at 31 December 2020 and receive our trade receivables based on historical settlement pattern; (ii) during the suspension of work, we will continue paying our staff at the minimum wage level permissible under the relevant laws and regulation and other fixed costs; and (iii) we will settle our trade payables as at 31 December 2020 based on historical settlement pattern.

Work safety measures

Our Group has put in place an internal safety manual which sets out the work safety measures implemented by our Group to prevent workplace accidents. Set out below are some of the work safety measures included in our internal safety manual:

- effective promotion and communication of safety procedures are maintained through, among others, establishing safety bulletin and detailed record of accident statistics, holding regular internal and external safety meetings, and documenting safety measures and issues identified for each project by preparing safety reports and training record;

- risk assessments are conducted to identify potential hazards and accidents and provide suggestion on proper preventive measures prior to commencement of works;

- site inspections are carried out by our safety officers on a daily basis to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations;

- our safety officer shall assist our executive Directors to (i) establish, approve and ensure the implementation of our work safety measures; and (ii) arrange regular meetings to review the implementation of our work safety measures;

- our safety officer shall (i) advise our senior management team on the legal requirements in respect of occupational health and safety matters; (ii) anticipate possible workplace hazards and recommend relevant prevention procedures; (iii) provide statistics and analysis on work place accidents and make recommendations for improvement; (iv) report and investigate works accidents, determine their causes and recommend measures for preventing recurrence; and (v) arrange safety trainings for all our employees;

- our project management team shall ensure that our work safety measures are incorporated into our proposed construction methods from the planning stage, and are subsequently adhered to throughout project implementation;

- our site foremen shall co-operate with our safety officer to establish on-site safety practices and ensure that all new comers to the construction sites are aware of their obligations to comply with such practices; and

- all site personnel will undergo initial induction trainings covering core topics such as work safety measures, relevant health and safety regulations, emergency, common hazards of work sites, accident reporting and first aid procedures. Other matters such as working at height, proper use of personal protective equipment and safe use of machinery and equipment are also covered in the trainings.

Our executive Directors are of the view, and the Sponsor concurs, that the workplace safety measures of our Group are adequate and effective, taking into consideration that:

- during the Track Record Period, we engaged registered safety auditors for the purpose of conducting safety audits on our safety management on a semi-annual basis in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulations. In the course of the safety audits, the safety auditors (i) conducted physical inspection on selected sites to assess if our established safety management system was implemented in accordance with the relevant laws and regulations in Hong Kong; (ii) conducted interview with personnel selected from different levels; (iii) obtained documents for review to assess the adequacy and effectiveness of our safety management system; and (iv) suggested areas of improvements and recommendations on our safety management system. Upon completion of the safety audits, the safety audit reports were submitted to our safety officer and executive Directors for review and then submitted to the Labour Department. Our executive Directors confirmed that no material deficiencies in relation to workplace safety has been identified by the safety auditors and our safety management system had continually fulfilled the relevant safety regulations in all material respects;

- prior to the commencement of works, our project management staff had provided site safety specific induction training to our employees and our subcontractors' employees, which covered, among other things, introduction to our site safety supervision personnel, our occupational health and safety policies as well as safety practice, potential hazards in respect of the work sites, function and proper usage of personal protection equipment, contingency measures at work sites and the use of first-aid equipment;

- 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 which identify common safety and health hazards and recommendations on prevention of workplace accidents;

- the seven workplace accidents which took place during the Track Record Period and up to the Latest Practicable Date only involved minor injuries such as shoulder, finger or knee injuries to our employees and/or our subcontractor's employee, which did not result in any permanent loss of working capacity of the injured workers. Besides, none of these accidents have resulted in penalty, enforcement action or prosecution against us by the Government as at the Latest Practicable Date; and

- despite the increase in our accident rate from 15.0 in 2018 to 42.7 in 2019, our accident rate had subsequently decreased to 15.1 for the eight months ended 31 August 2020.

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 about the details of the accident on a timely basis, including the venue, time, cause of injury, etc.

- Our safety officer will prepare a notice of accident and send the notice of accident to the 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 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.

Workplace accidents

During the Track Record Period and up to the Latest Practicable Date, there were seven accidents involving our employees and/or our subcontractor's employee which gave rise or may give rise to potential employees' compensation claims and/or 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.	12 July 2018	An employee of our Group slipped and suffered injury to his right calf during work hours
2.	31 January 2019	An employee of our Group sprained her right shoulder when digging soil during work hours
3.	4 March 2019	An employee of our Group suffered head and knee injury from a car accident during work hours
4.	18 April 2019	An employee of our Group twisted her right shoulder when digging soil during work hours
5.	21 September 2019	An employee of our subcontractor suffered injury to his left little finger when using a hammer during work hours

No.	Date of accident	Details of the accident
6.	22 April 2020	An employee of our Group tripped and twisted his left knee and waist during work hours
7.	19 May 2020	An employee of our Group fell and suffered injury to his right shoulder and right rib during work hours

For further details of the employees' compensation claims under the Employees' Compensation Ordinance and personal injury claims under common law, please refer to the paragraph headed "Litigations and potential 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.

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 *(Notes 2 and 3)*
From 1 January to 31 December 2017		
Accident rate per 1,000 workers	32.9	Nil
Fatality rate per 1,000 workers	0.185	Nil
From 1 January to 31 December 2018		
Accident rate per 1,000 workers	31.7	15.0
Fatality rate per 1,000 workers	0.125	Nil
From 1 January to 31 December 2019		
Accident rate per 1,000 workers	29.0	42.7
Fatality rate per 1,000 workers	0.157	Nil
From 1 January 2020 to 31 August 2020		
Accident rate per 1,000 workers	N/A *(Note 4)*	15.1
Fatality rate per 1,000 workers	N/A *(Note 4)*	Nil

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No. 20 (August 2020) 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 monthly average of the construction site workers in our Group's projects during the relevant financial year/period.

3. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

4. The relevant data has not been published as at the Latest Practicable Date.

Our Group's accident rate increased from nil for the year ended 31 December 2017 to 15.0 for the year ended 31 December 2018 and further increased to 42.7 for the year ended 31 December 2019. The increase in our Group's accident rate was mainly attributable to the increase in number of minor injuries such as shoulder, finger or knee injuries to our employees and/or our subcontractor's employee, which did not result in any permanent loss of working capacity of the injured workers. Further, none of these accidents have resulted in penalty, enforcement action or prosecution against us by the Government as at the Latest Practicable Date.

Our executive Directors are of the view and the Sponsor concurs that the increase in our Group's accident rate did not reflect negatively on the effectiveness of our Group's workplace safety system taking into consideration (i) the computation of accident rates only takes into account the instances of workplace accidents which took place during the corresponding period regardless of the seriousness of the accidents; (ii) the seven workplace accidents which took place during the Track Record Period and up to the Latest Practicable Date only involved minor injuries as aforementioned; (iii) none of these workplace accidents have resulted in penalty, enforcement action or prosecution against us by the Government as at the Latest Practicable Date; (iv) our Group has established an occupational health and safety management system which is certified to be in compliance with OHSAS 18001 international standard in order to provide our employees with a safe and healthy working environment; and (v) our Group has adopted comprehensive work safety measures set out above to prevent workplace accidents.

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

	LTIFR
For the year ended 31 March 2018	Nil
For the year ended 31 March 2019	14.3
For the year ended 31 March 2020	7.3
For the five months ended 31 August 2020	13.4
From 1 April 2017 to 31 August 2020	9.4

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/period by 1,000,000 divided by the number of hours worked by site workers over the same year/period. 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

Leased 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 2515, 25/F, The Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	Independent third party	For general office use	Monthly rental of HK$34,000 with tenancy period from 15 August 2018 to 14 August 2021

As at 31 August 2020, 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 document. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in respect of the requirements for a valuation report with respect to interests in land or buildings.

INTELLECTUAL PROPERTIES

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

During the Track Record and up to the Latest Practicable Date, save as disclosed under this paragraph headed "Litigations and potential claims" in this section, no litigation or claim of material importance was known to our Directors to be pending or threatened against any member of our Group.

Our Directors confirm that, to the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, our Group was involved in seven accidents during the Track Record Period and up to the Latest Practicable Date, involving our employees and/or our subcontractor's employee which gave rise or may give rise to potential employees' compensation claims and/or personal injury claims during the usual and ordinary course of business of our Group, all of which were fully covered by the relevant insurance policies. Given that (i) the seven accidents occurred during the respective insured periods; (ii) the injured employees were insured at the material times; and that (iii) there is nothing suggesting the contrary to the best knowledge of our Directors, our Directors are of the view that the amount of such claims and/or potential claims shall be covered by the relevant insurance policies maintained by our Group and/or the relevant main contractors.

Discontinued litigation in relation to an employees' compensation claim against our Group

Our Directors confirm that, to the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, our Group had been involved in the following employees' compensation claim resulting from a workplace accident during the Track Record Period, which had been discontinued by a Notice of Discontinuance dated 25 March 2020 and filed on 8 May 2020:

No.	Nature of the claim	Particulars of the claim	Covered by insurance
1	Employees' compensation claim	On 31 January 2019, an employee of our Group sprained her right shoulder and sustained right shoulder pain when digging soil in the course of business	Yes

The above employees' compensation claim is covered by the insurance policy maintained by the relevant main contractor. Our executive Directors confirmed that the insurer had taken over the conduct of the claim. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, given that the claim was referred to the insurer of the main contractor, the insurer had entered into negotiation with the claimant on possibility of out-of-court settlement, thereby resulting in the discontinuance of the above employees' compensation claim. Since the discontinuance of the aforesaid litigation and up to the Latest Practicable Date, we have not been subject to any claim or legal action by the claimant in relation to the workplace accident.

Despite the discontinuance of the above employees' compensation claim, such employee may have potential personal injury claim under common law against our Group, for the reason that the limitation period for instituting the personal injury claim under common law has not been expired. For further details of the potential employees' compensation claims and potential personal injury claims against our Group, please prefer to the paragraph headed "Potential claims" in this section below.

Settled claim in relation to workplace injuries

During the Track Record Period and up to the Latest Practicable Date, Kwong Luen Engineering had settled the following claim in relation to workplace injury, which was covered by insurance policy taken out by the relevant main contractor:

No.	**Particulars of the claim**	**Settlement amount** *HK$*	**Covered by insurance**
1.	On 18 April 2019, an employee of our Group twisted her right shoulder when digging soil during work hours. Subsequently, the employee accepted the insurer's offer to settle all possible claims (including but not limited to employees' compensation claim and personal injury claim under common law) in relation to the accident.	243,360	Yes

Potential 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 personal injury claims brought by the injured worker against our Group:

- **Employees' compensation claims:** For information regarding the relevant laws in relation to employees' compensation claims, please refer to the paragraph headed "Regulatory overview – A. Labour, health and safety – Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)" in this document.

- **Personal injury claims:** an injured employee may also pursue personal injury claim under common law (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 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 "**Limitation Ordinance**"), the time limit for an applicant to commence personal injury claim is three years from the date on which the cause of action accrued.

Potential claims refer to those claims that have not been commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance.

During the Tack Record Period and up to the Latest Practicable Date, there were seven workplace accidents resulting in injuries to our employees and/or our subcontractor's employee, among which, the claim arising from one of the accidents was settled and the remaining six accidents may give rise to potential litigations in relation to employees' compensation claims and/or personal injury claims against our Group. For further details, please refer to the paragraph headed "Occupational health and work safety" above in this section.

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 policies maintained by our Group and/or the relevant main contractors. Our Directors confirm that the accidents which gave rise to such potential claims were caused during the usual and ordinary course of our business and have not caused any material disruption to our Group's business. As advised by the Legal Counsel, in view of the nature of injury suffered by the relevant employees of our Group or our subcontractors, such accidents do not have any adverse impact on our Group to obtain and renew any licence, registration or permit for our operation.

No provision for litigation claims

Insurance policies have been taken out in compliance with the 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" above in this section.

Regarding the potential employees' compensation claims and personal injury 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 policies; (iii) the uncertainties in the total amount that will be involved for such claims, if any; and (iv) the indemnity given by our Controlling Shareholders as mentioned below.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of all claims, penalties and fines and all losses and damages which may be suffered by any of our Group members as a result of our provision of foundation services up to the **[REDACTED]**. Further details of the Deed of Indemnity are set out in the paragraph headed "E. Other information – 1. Tax and other indemnities" in Appendix IV to this document.

NON-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.

The regulatory compliance manual and checklist will be updated regularly and approved by the Board. We have established effective communication channel to ensure the regulatory compliance manual and checklist will be properly communicated to all relevant personnel. Should the circumstances require, we will engage an external legal adviser to advise on the compliance status of our Group and provide necessary training to our Directors on the relevant laws and regulations after **[REDACTED]**. We have also set up a whistle-blowing channel for our employees of different levels and job functions to report any irregularity in our operations to our Directors.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE 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 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.

We are committed to upholding the principles of equal opportunities, diversity and anti-discrimination in our workplace. Recruitment and retention of employees will be based on a range of diversity parameters, including but not limited to gender, age, cultural and educational background, nationality, ethnicity, industry experience, skills, knowledge, length of services or any other factors considered relevant and applicable from time to time and beneficial to our business operations and development.

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 three independent non-executive Directors, whose backgrounds and profiles are set out in the section headed "Directors and senior management" in this 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 based on their extensive administrative experience and specialised knowledge;

(ii) 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. For details, please refer to the paragraph headed "Directors and senior management – Board committees" in this document;

(iv) we have strengthened our internal audit system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises three 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) our Directors have attended a training session on 16 June 2020 conducted by our legal advisers as to Hong Kong law on, among other things, the obligations, on-going corporate governance requirements and the duties of directors of a company **[REDACTED]** on the Stock Exchange;

(vi) our company secretary, Mr. Wong Ho Cheung, will attend external professional training each year to keep himself abreast of the latest accounting and/or regulatory regime in Hong Kong;

(vii) we have appointed Grande Capital Limited as our compliance adviser to advise us on compliance matters in relation to the Listing Rules;

(viii) to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed "Relationship with Controlling Shareholders – Corporate governance measures" in this document; and

(ix) 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 after **[REDACTED]**.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed "Risk factors" in this 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 cost 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 and subcontractors – Our subcontractors – Basis of selecting our subcontractors" and "Our suppliers and subcontractors – Our subcontractors – 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 trade receivables, contract assets arising from construction services and retention receivables" in this document.

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 tender invitations from new customers, our finance and administration staff would check on the background of the potential customer in order to assess 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 our 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 relevant customers.

We generally grant our customers a credit term of 14 to 60 days from the invoice date. As at 31 March 2018, 2019 and 2020 and 31 August 2020, we recorded trade receivables of approximately HK$0.9 million, HK$17.0 million, HK$10.4 million and HK$14.7 million, respectively. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our trade receivables turnover days were approximately 16.0 days, 11.9 days, 12.3 days and 8.7 days, respectively.

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 and subcontractors and receiving payment from our customers when undertaking the foundation works, resulting in possible cash flow mismatch.

In order to manage our liquidity position in view of the aforementioned working capital requirement and the possible cash flow mismatch associated with undertaking the foundation 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 requirements and schedule of the project to prevent excessive purchases; and

- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things, (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and ageing 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 ageing analysis to ensure that payments to our suppliers and subcontractors are made on a timely basis.

We have established the following policies with a view to further improve our cash flow position on project level:

- continue to follow up closely with our customers in settling the respective projects' outstanding balances for the work we had completed;

- prior to the commencement of each project, our project management team will prepare forecast on the cash inflow and cash outflow for the respective project, and negotiate with our customers in our best effort to set out the most favourable payment terms for our Group;

- our project management team is responsible for documenting expected cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow plans for each project and submitting the cashflow plans to our finance and administration staff on a monthly basis;

- our finance and administration staff, led by our financial controller, will be responsible for reviewing the cashflow plans for our projects and submitting the cashflow plans to our management for review; and

- in the event that there is expected net cash outflow for a particular month, we will actively follow up with our customers for payment or plan for financing.

(vi) Regulatory risk management

We keep ourselves abreast of any changes in the Government policies, regulations, and licensing requirements in relation to our business operations, as well as the relevant environmental and 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.

(vii) Occupational health and work safety

Please refer to the paragraph headed "Occupational health and work safety" above in this section.

(viii) Quality control system

Please refer to the paragraph headed "Quality control" above in this section.

(ix) Environmental management system

Please refer to the paragraph headed "Environmental compliance" above in this section.

(x) Safeguards against bribery and corruption

We have established a set of internal policies, measures and procedures to prevent potential bribery in relation to project tendering. For instance, we segregated duties of our staff throughout the tendering process. Our quantity surveyors are responsible for preparing the tender documents and evaluating the commercial viability of potential projects, while our financial controller is responsible for reviewing the estimated project costs and provide latest financial information to our quantity surveyors. All tender documents are reviewed by our executive Director, Mr. Yip, to ensure there is no potential collusion of tender. In addition, if any of our staff is found to commit collusion of tender, he/she will be subject to disciplinary action in accordance with our anti-bribery policies.

We have also established a whistleblowing mechanism. All cases shall be directly reported to our executive Directors who shall be responsible for performing relevant investigation procedures against corruption and bribery, and to facilitate the execution of our anti-bribery policies, measures and procedures.

Furthermore, we will organise internal training programs to our staff, in particular those responsible for preparing tenders, which are to be conducted by third party professionals. To further enhance the awareness towards anti-commercial bribery, we will support our staff to join training sessions with the Independent Commission Against Corruption (the "**ICAC**") on the laws and regulations, risk and preventive measures in respect of tender collusion and the implementation of preventive measures recommended by the ICAC.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board is responsible and has general powers for the management and conduct of our Group's business. The following table sets out certain information in respect of our Directors:

Name	Age	Present position(s)	Date of joining our Group	Date of appointment as Director	Principal responsibilities	Relationship with other Directors and/or senior management
Executive Directors						
Mr. YIP Kwong Cheung (葉廣祥)	64	Chairman, chief executive officer and executive Director	1 June 1995	20 May 2020	Overseeing the daily operation, managing the project management team and formulating the overall business development strategies of our Group	Mr. Yip is the spouse of Ms. Kwan
Ms. KWAN Chui Ling (關翠玲)	63	Executive Director	29 June 2000	20 May 2020	Overseeing the human resources and administration affairs of our Group	Ms. Kwan is the spouse of Mr. Yip
Independent non-executive Directors						
Ms. CHENG Shing Yan (鄭承欣)	45	Independent non-executive Director	19 February 2021	19 February 2021	Overseeing our management independently and providing independent advice to the Board	Nil
Mr. WONG Yiu Kit Ernest (黃耀傑)	53	Independent non-executive Director	19 February 2021	19 February 2021	Overseeing our management independently and providing independent advice to the Board	Nil

Name	Age	Present position(s)	Date of joining our Group	Date of appointment as Director	Principal responsibilities	Relationship with other Directors and/or senior management
Mr. TANG Sher Kin (鄧社堅)	50	Independent non-executive Director	19 February 2021	19 February 2021	Overseeing our management independently and providing independent advice to the Board	Nil

Our senior management is responsible for the day-to-day management of our Group's business. The following table sets out certain information in respect of our senior management members:

Name	Age	Present position(s)	Date of joining our Group	Principal responsibilities	Relationship with other Directors and/or senior management
Mr. CHAN Chi Chung (陳志聰)	37	Project manager	2 July 2019	Overall coordination and management of assigned projects and site supervision	Nil
Mr. KWOK Yiu Hung (郭耀洪)	56	Site manager	12 August 1997	Our site coordination, site supervision and project management	Nil
Mr. WONG Ho Cheung (黃浩璋)	32	Financial controller and company secretary	1 December 2019	Overseeing our financial reporting, financial planning, treasury, financial control and company secretarial matters	Nil

DIRECTORS

The Board currently comprises five Directors, including two executive Directors and three independent non-executive Directors.

Executive Directors

Mr. YIP Kwong Cheung (葉廣祥), aged 64, is our Chairman, chief executive officer and executive Director. Mr. Yip serves as the chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Yip is primarily responsible for overseeing the daily operation, managing the project management team and formulating the overall business development strategies of our Group.

Mr. Yip is a founder of our Group. Mr. Yip attended junior secondary education in Hong Kong. He has accumulated about 30 years of experience in the foundation industry and construction project management. In August 1990, he commenced his own business through a sole proprietorship under the name of Kwong Luen Co. established by himself which mainly engaged in construction works in Hong Kong. He has been a director of Kwong Luen Engineering since June 1995. He is also a director of both Kwong Luen Prosperity and Kwong Luen Success. Mr. Yip is the spouse of Ms. Kwan.

Mr. Yip was an owner and sole proprietor of the following entity in Hong Kong immediately prior to its dissolution:

Name of entity	Place of establishment	Nature of business	Date of dissolution	Reasons of dissolution
Kwong Luen Co. *(Note)*	Hong Kong	Construction works	30 June 2018	Cancellation of business registration due to cessation of business

Note: With a view to avoid competition between our Group and Kwong Luen Co., it was decided to cease the business of Kwong Luen Co.

Mr. Yip was a director of the following dissolved private companies in Hong Kong. The relevant details are set forth as follows:

Name of company	**Place of incorporation**	**Nature of business**	**Date of dissolution**	**Means of dissolution**	**Reasons of dissolution**
Eastern Realty Investment Limited	Hong Kong	Property holding	23 March 2001	Deregistration pursuant to section 291AA of the Predecessor Companies Ordinance *(Note 1)*	Cessation of business
Kwong Luen Development (Hong Kong) Limited	Hong Kong	Property holding	20 December 2019	Deregistration pursuant to section 750 of the Companies Ordinance *(Note 2)*	Cessation of business

Notes:

1. Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of the company agree to such deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than 3 months immediately before the application; and (c) the company has no outstanding liabilities.

2. Under section 750 of the Companies Ordinance, an application for deregistration must not be made unless at the time of the application: (a) all members of the company agree to such deregistration; (b) the company has not commenced business or operation, or has not been in operation or carried on business during the three months immediately before the application; (c) such company has no outstanding liabilities; (d) such company is not a party to any legal proceedings; (e) such company's assets do not consist of any immovable property situate in Hong Kong; and (f) if such company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

Mr. Yip confirms that, to the best of his knowledge: (a) each of the dissolved companies and entity was solvent and had no outstanding claims or liabilities immediately prior to and at the time of its dissolution; (b) there was no fraudulent or wrongful act or misfeasance on his part leading to the dissolution of these companies and entity; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of dissolution of these companies and entity; and (d) these companies and entity were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director or sole proprietor of these companies and entity. Having considered the background and circumstances leading to the dissolution of the dissolved companies and entity of Mr. Yip and based on independent due diligence works performed, the Sponsor concurs with Mr. Yip's view that there were no material non-compliant incidents, claims, litigations or legal proceedings (whether actual or threatened) in relation to the dissolved companies and entity of Mr. Yip prior to their respective dissolution.

Ms. KWAN Chui Ling (關翠玲), aged 63, is our executive Director. Ms. Kwan is primarily responsible for overseeing the human resources and administration affairs of our Group. Ms. Kwan attended secondary education in Hong Kong. Ms. Kwan has accumulated about 20 years of experience in the foundation industry. She has been a director of Kwong Luen Engineering since June 2000. She is also a director of both Kwong Luen Prosperity and Kwong Luen Success. Ms. Kwan is the spouse of Mr. Yip.

Ms. Kwan was a director of the following dissolved private company in Hong Kong. The relevant details are set forth as follows:

Name of the company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Kwong Luen Development (Hong Kong) Limited	Hong Kong	Property holding	20 December 2019	Deregistration pursuant to section 750 of the Companies Ordinance *(Note)*	Cessation of business

Note: Under section 750 of the Companies Ordinance, an application for deregistration must not be made unless at the time of the application: (a) all members of the company agree to such deregistration; (b) the company has not commenced business or operation, or has not been in operation or carried on business during the three months immediately before the application; (c) such company has no outstanding liabilities; (d) such company is not a party to any legal proceedings; (e) such company's assets do not consist of any immovable property situate in Hong Kong; and (f) if such company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

Ms. Kwan confirms that, to the best of her knowledge: (a) the dissolved company was solvent and had no outstanding claims or liabilities immediately prior to and at the time of its dissolution; (b) there was no fraudulent or wrongful act or misfeasance on her part leading to the dissolution of the company; (c) she was not aware of any actual or potential claim that has been or will be made against her as a result of dissolution of the company; and (d) the company was not involved in any material non-compliance incidents, disputes or litigations during the time she was a director of the company. Having considered the background and circumstances leading to the dissolution of the dissolved company of Ms. Kwan and based on independent due diligence works performed, the Sponsor is of the view that there were no material non-compliant incidents, claims, litigations or legal proceedings (whether actual or threatened) in relation to the dissolved company of Ms. Kwan prior to its dissolution.

Independent non-executive Directors

Ms. CHENG Shing Yan (鄭承欣), aged 45, was appointed as our independent non-executive Director on 19 February 2021. Ms. Cheng serves as the chairlady of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee. She is responsible for overseeing our management independently and providing independent advice to the Board.

Ms. Cheng has accumulated about 22 years of experience in auditing, accounting and financial management. She held different positions at Ernst & Young Business Services Ltd. from January 2004 to December 2008, where she last served as a manager of the assurance and advisory business services department. She then worked at Baker Tilly Hong Kong Business Services Limited as a manager from March 2009 to July 2010. She held different positions at SHINEWING (HK) CPA Limited from November 2010 to April 2016, where she last served as a senior audit manager. Since April 2016, Ms. Cheng joined the group of Sanroc International Holdings Limited (now known as Zhaobangji Properties Holdings Limited) ("**Sanroc**"), a company listed on the Main Board (stock code: 1660), as the chief financial officer.

From August 2016 to April 2018 and from April 2017 to April 2018, she was the company secretary and an executive director of Sanroc, respectively. From June 2017 to October 2019, she was an independent non-executive director of China Shenghai Food Holdings Company Limited (now known as China Shenghai Group Limited), a company listed on the Main Board (stock code: 1676). Since October 2017, she has been an independent non-executive director of Putian Communication Group Limited, a company listed on the Main Board (stock code: 1720).

Ms. Cheng obtained a master's degree of arts in international accounting from the City University of Hong Kong in November 2003. She was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in July 2003, a fellow of The Association of Chartered Certified Accountants in December 2005, an associate of The Institute of Chartered Secretaries and Administrators (now known as The Chartered Governance Institute) in June 2017 and an associate of The Hong Kong Institute of Chartered Secretaries in June 2017.

Mr. WONG Yiu Kit Ernest (黃耀傑), aged 53, was appointed as our independent non-executive Director on 19 February 2021. Mr. Wong serves as the chairman of the Remuneration Committee and a member of the Audit Committee. He is responsible for overseeing our management independently and providing independent advice to the Board.

Mr. Wong has accumulated over 20 years of extensive experience in venture capital, corporate finance and management. He was the vice president of Vertex Management (HK), an international venture capital firm in Singapore, from July 2000 to October 2002. He worked at Hong Kong Applied Science and Technology Research Institute Company Limited from November 2002 to April 2008, where he last served as the chief financial officer. He was an executive director of Adamas Finance Asia Limited (formerly known as China Private Equity Investment Holdings Limited) ("**Adamas Finance**"), a company listed on the London Stock Exchange (stock code: ADAM) and the Frankfurt Stock Exchange (stock code: 1CP1), from May 2008 to February 2014 and a non-executive director of Adamas Finance from February 2014 to June 2019. From October 2014 to August 2019, he worked for KVB Kunlun Financial Group Limited (now known as CLSA Premium Limited) ("**Kunlun Financial**"), a company listed on the Main Board (stock code: 6877), as the chief financial officer and the company secretary. During the period from May 2018 to August 2019, he was concurrently an executive director of Kunlun Financial. He is currently the president and the group chief financial officer of KVB Holdings Limited.

From November 2016 to September 2018, he was an independent non-executive director of Legend Strategy International Holdings Group Company Limited, a company listed on the Main Board (stock code: 1355). From February 2017 to August 2019, he was an independent non-executive director of China Regenerative Medicine International Limited, a company listed on GEM of the Stock Exchange (stock code: 8158). From July 2014 to July 2020, he was an independent non-executive director of HongDa Financial Holding Limited (now known as China Wood International Holding Co., Limited), a company listed on the Main Board (stock code: 1822).

He is currently an independent non-executive director of each of RENHENG Enterprise Holdings Limited, a company listed on the Main Board (stock code: 3628), Progressive Path Group Holdings Limited, a company listed on the Main Board (stock code: 1581), Aidigong Maternal & Child Health Limited, a company listed on the Main Board (stock code: 286) and Goldstone Investment Group Limited, a company listed on the Main Board (stock code: 901).

Mr. Wong obtained a bachelor's degree of business administration from the University of Hong Kong in November 1991, a master's degree of science in investment management from The Hong Kong University of Science and Technology in November 1998, a master's degree of science in electronic engineering from The Chinese University of Hong Kong in December 2008 and a master's degree of science in major programme management from the University of Oxford in the United Kingdom in February 2020.

Mr. Wong was admitted as a chartered financial analyst of The Institute of Chartered Financial Analysts in September 1998, a fellow of The Association of Chartered Certified Accountants in November 1999, a fellow of the Hong Kong Society of Accountants (now known as the Hong Kong Institute of Certified Public Accountants) in October 2002 and a fellow of The Institute of Chartered Accountants in England and Wales in January 2018.

Mr. Wong was a director of the following dissolved private companies in Hong Kong. The relevant details are set forth as follows:

Name of the company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Eternity Capital Limited	Hong Kong	Investment holding	27 September 2019	Deregistration pursuant to section 750 of the Companies Ordinance *(Note)*	Cessation of business
Eternity Holdings Limited	Hong Kong	Investment holding	4 October 2019	Deregistration pursuant to section 750 of the Companies Ordinance *(Note)*	Cessation of business
Fortune Trio Property Investment Limited	Hong Kong	Investment holding	3 April 2020	Deregistration pursuant to section 750 of the Companies Ordinance *(Note)*	Cessation of business
Hong Kong Crowdfunding Professionals Association Limited	Hong Kong	Advancement and promotion of crowdfunding	10 July 2020	Deregistration pursuant to section 750 of the Companies Ordinance *(Note)*	Cessation of business

Note: Under section 750 of the Companies Ordinance, an application for deregistration must not be made unless at the time of the application: (a) all members of the company agree to such deregistration; (b) the company has not commenced business or operation, or has not been in operation or carried on business during the three months immediately before the application; (c) such company has no outstanding liabilities; (d) such company is not a party to any legal proceedings; (e) such company's assets do not consist of any immovable property situate in Hong Kong; and (f) if such company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

Mr. Wong confirms that, to the best of his knowledge: (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to and at the time of its dissolution; (b) there was no fraudulent or wrongful act or misfeasance on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of dissolution of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies. Having considered the background and circumstances leading to the dissolution of the dissolved companies of Mr. Wong and based on independent due diligence works performed, the Sponsor is of the view that there were no material non-compliant incidents, claims, litigations or legal proceedings (whether actual or threatened) in relation to the dissolved companies of Mr. Wong prior to their respective dissolution.

Mr. TANG Sher Kin (鄧社堅), aged 50, was appointed as our independent non-executive Director on 19 February 2021. Mr. Tang serves as a member of the Audit Committee and the Nomination Committee. He is responsible for overseeing our management independently and providing independent advice to the Board.

Mr. Tang has accumulated about 26 years of experience in engineering industry and project management. From May 1994 to June 1997, he worked as a senior sales engineer at Temperzone Limited. From June 1997 to December 2018, he worked as a senior manager at The Jardine Engineering Corporation, Limited. Since January 2019, he has been an executive director and the general manager of Luen Fat Air Condition (Holding) Trading & Engineering Co. Ltd.

Mr. Tang obtained a bachelor's degree of engineering in mechanical engineering from the Oxford Polytechnic (now known as the Oxford Brookes University) in the United Kingdom in July 1992 and a master's degree of arts in global business management from the City University of Hong Kong in November 2006.

Mr. Tang was admitted as a chartered engineer of the Engineering Council in December 2004, a fellow of the Asian Institute of Intelligent Buildings in July 2005, a BEAM professional of the Hong Kong Green Building Council in 2010, a chartered environmentalist of the Society of Operations Engineers in August 2011, a registered energy assessor of the Electrical and Mechanical Services Department of the Government in August 2012, a certified member of The Environmental Management Association of Hong Kong in January 2017 and a professional member of the Hong Kong Institute of Qualified Environmental Professionals Limited in July 2017. Mr. Tang is currently a fellow of The Hong Kong Institution of Engineers in five disciplines including (i) building services; (ii) control, automation & instrumentation; (iii) environmental; (iv) energy; and (v) mechanical. Mr. Tang has been a member of the Innovation and Technology Fund Research Projects Assessment Panel for two years with effect from 1 January 2021.

Mr. Tang was a director of the following dissolved private company in Hong Kong. The relevant details are set forth as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Smart Channel Investment Limited	Hong Kong	Entertainment	11 July 2003	Striking off pursuant to section 291 of the Predecessor Companies Ordinance *(Note)*	Cessation of business

Note: Striking off in this context refers to striking off the name of a company from the register of companies by the Registrar of Companies of Hong Kong under section 291 of the Predecessor Companies Ordinance where the Registrar of Companies has reasonable cause to believe that a company is not carrying on business or in operation.

Mr. Tang confirms that, to the best of his knowledge: (a) the dissolved company was solvent and had no outstanding claims or liabilities immediately prior to and at the time of its dissolution; (b) there was no fraudulent or wrongful act or misfeasance on his part leading to the dissolution of the company; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of dissolution of the company; and (d) the company was not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of the company. Having considered the background and circumstances leading to the dissolution of the dissolved company of Mr. Tang and based on independent due diligence works performed, the Sponsor is of the view that there were no material non-compliant incidents, claims, litigations or legal proceedings (whether actual or threatened) in relation to the dissolved company of Mr. Tang prior to its dissolution.

Disclosure required under Rule 13.51(2) of the Listing Rules

Save as disclosed in this section, each of our Directors confirms with respect of himself/herself that:

(a) he/she has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas;

(b) he/she does not hold other positions in our Company or other members of our Group;

(c) he/she is independent from and he/she does not have any relationship with other Directors, senior management of our Company, substantial Shareholders or Controlling Shareholders;

(d) he/she does not have any interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed "C. Further information about Substantial Shareholders and Directors – 1. Disclosure of interests" in Appendix IV to this document;

(e) he/she does not have any interest in any business which competes or may compete, directly or indirectly, with us, which is discloseable under Rule 8.10 of the Listing Rules; and

(f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as of the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. CHAN Chi Chung (陳志聰), aged 37, joined our Group in July 2019 as a senior engineer of Kwong Luen Engineering and was promoted as a project manager of Kwong Luen Engineering in September 2019. He is primarily responsible for the overall coordination and management of assigned projects and site supervision.

Mr. Chan has accumulated about 13 years of experience in construction project management. Prior to joining our Group, from August 2007 to May 2010, Mr. Chan served as a graduate engineer at Ove Arup & Partners Hong Kong Ltd. From May 2010 to July 2011, Mr. Chan served as an assistant engineer (grade 1) at Gammon Construction Limited. From September 2011 to August 2012, Mr. Chan worked as a site engineer at Bachy Soletanche Group Limited. From October 2012 to August 2013, Mr. Chan worked as an engineer at Maeda – China State Joint Venture. From September 2013 to August 2016, Mr. Chan worked as an engineer at China State Construction Engineering (Hong Kong) Limited. From September 2016 to February 2019, Mr. Chan served as a senior engineer at China Road and Bridge Corporation.

Mr. Chan obtained a bachelor's degree of engineering in civil engineering from the University of Bath in the United Kingdom in June 2007 and a master's degree of science in civil engineering from The Hong Kong Polytechnic University in September 2018.

Mr. Chan has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. KWOK Yiu Hung (郭耀洪), aged 56, joined our Group in August 1997 as an excavator operator of Kwong Luen Engineering. He was promoted as a site agent of Kwong Luen Engineering in March 2000 and was further promoted as a site manager of Kwong Luen Engineering in September 2015. He has accumulated about 37 years of practical experience in the foundation industry. Mr. Kwok is primarily responsible for our site coordination, site supervision and project management.

Mr. Kwok completed four courses for qualifying site supervisors as technically competent persons organised by the Construction Industry Training Authority in Hong Kong from 2002 to 2005.

Mr. Kwok has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. WONG Ho Cheung (黃浩璋), aged 32, joined our Group in December 2019 as a financial controller of Kwong Luen Engineering. He is primarily responsible for overseeing our financial reporting, financial planning, treasury, financial control and company secretarial matters.

Mr. Wong has accumulated about nine years of experience in auditing and financial matters. Prior to joining our Group, from October 2011 to September 2012, Mr. Wong served as an audit trainee at Pentagon CPA Limited. From October 2012 to January 2016, Mr. Wong held various positions at Mazars CPA Limited, where he last served as a senior (grade II). From February 2016 to January 2018, Mr. Wong served as a senior at Deloitte Touche Tohmatsu. From June 2018 to October 2019, Mr. Wong served as an accounting manager at Kit Kee Engineering Limited, a subsidiary of Dragon Rise Group Holdings Limited (stock code: 6829), a company listed on the Main Board.

Mr. Wong obtained a bachelor's degree of business administration (accounting) from the Hong Kong Baptist University in November 2011. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in October 2018.

Mr. Wong has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Mr. WONG Ho Cheung was appointed as the company secretary of our Company on 17 February 2021. For the biography of Mr. Wong, please refer to the paragraph under "Senior management" above in this section.

COMPLIANCE ADVISER

We have appointed Grande Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the **[REDACTED]** of the **[REDACTED]** in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and

(d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the **[REDACTED]** and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the **[REDACTED]** and such appointment may be subject to extension by mutual agreement.

BOARD COMMITTEES

Audit Committee

We established the Audit Committee on 19 February 2021 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to, among other things, review and approve our Group's financial reporting process and internal control and risk management system, oversee our audit process and perform other duties and responsibilities as assigned by the Board. The Audit Committee consists of three members, namely Ms. Cheng Shing Yan, Mr. Wong Yiu Kit Ernest and Mr. Tang Sher Kin. The chairlady of the Audit Committee is Ms. Cheng Shing Yan.

Remuneration Committee

We established the Remuneration Committee on 19 February 2021 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to, among other things, formulate our remuneration policy, review and determine the terms of remuneration packages of our Directors and senior management and review and approve performance-based remuneration with reference to our corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee consists of three members, namely Mr. Wong Yiu Kit Ernest, Mr. Yip and Ms. Cheng Shing Yan. The chairperson of the Remuneration Committee is Mr. Wong Yiu Kit Ernest.

Nomination Committee

We established the Nomination Committee on 19 February 2021 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and our board diversity policy (the "**Board Diversity Policy**") on a regular basis to identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee consists of three members, namely Mr. Yip, Ms. Cheng Shing Yan and Mr. Tang Sher Kin. The chairperson of the Nomination Committee is Mr. Yip.

BOARD DIVERSITY POLICY

We have adopted the Board Diversity Policy which sets forth the objective and approach to achieve diversity on our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of our long-term business strategy.

Measurable objectives

Selection of candidates will be based on a range of diversity parameters, including but not limited to gender, age, cultural and educational background, religious and philosophical belief, disability, nationality, sexual orientation, family status, ethnicity, professional experience, skills, knowledge, length of services or any other factors our Board may consider relevant and applicable from time to time and beneficial to the implementation of the business strategy of our Group or development of the business of our Group. The ultimate decision of the appointment will be based on merit and the potential contribution that the selected candidates will bring to our Board. Our Group believes that such merit-based approach in the selection would be in the best interests of our Group as a whole and our Shareholders.

When identifying potential candidates to our Board of Directors, our Board and the Nomination Committee shall, among others, (a) consider the current level of representation of females on our Board and the senior management when making recommendations for nominees; (b) ensure that appropriate balance of gender diversity is achieved with reference to **[REDACTED]** expectation, and international and local recommended best practices; (c) consider the criteria that promotes diversity by making reference to the code of practices on employment published by the Equal Opportunities Commission from time to time; and (d) implement a succession planning policy so as to afford stability to the long term management and succession of our Company.

Our Board currently comprises five members, including two executive Directors and three independent non-executive Directors. Our Board has a balanced mix of experiences in different areas such as construction, business administration, engineering, finance and accounting.

Despite the construction industry has been a male-dominant industry, our Board and the Nomination Committee shall, on a best-effort basis, maintain the gender diversity of our Board in particular, recognising the importance of gender diversity. Currently, our Board consists of one female executive Director and one female independent non-executive Director. Our Board and the Nomination Committee will also ensure that appropriate balance of gender diversity is achieved with reference to **[REDACTED]** expectation, and international and local recommended best practices.

After the **[REDACTED]**, the Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

CORPORATE GOVERNANCE CODE

Our Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, we will comply with the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules after the **[REDACTED]**.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Yip is currently performing these two roles. Throughout our history of operations, Mr. Yip, being a founder of our Group and a Controlling Shareholder, has held the key leadership position of our Group and has been deeply involved in the overall management, strategic planning and development of our business operation since its establishment. Taking into account the consistent leadership within our Group since 1995, the Board believes that it is in the best interest of our Group to have Mr. Yip taking up both roles for effective management and business development. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively.

Save as disclosed above, our Company has complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

In order to maintain good corporate governance, Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, allowances, discretionary bonuses, and/or other benefits in kind. We also reimburse them for expenses which are necessary and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. Our Group regularly reviews and determines the remuneration packages of our Directors and senior management by reference to, among others, market level of remuneration paid by comparable companies and their respective performance, duties and competence.

Upon and after the **[REDACTED]**, the remuneration packages of our Directors and senior management will, in addition to the above factors, be linked to the return to our Shareholders. The Remuneration Committee will review annually the remuneration of all our Directors to ensure that it could attract and retain a competent team or executive members.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the aggregate remuneration (including salaries, allowances and benefits in kind, and pension scheme contributions) paid by us to our Directors were approximately HK$0.9 million, HK$1.1 million, HK$1.2 million and HK$0.5 million, respectively. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the aggregate remuneration (including salaries, allowances and benefits in kind, and pension scheme contributions) paid by us to the three highest paid individuals (excluding our Directors) were approximately HK$1.9 million, HK$2.3 million, HK$2.4 million and HK$0.9 million, respectively.

No remuneration has been paid to our Directors or the three highest paid individuals (excluding our Directors) as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the Track Record Period.

OVERVIEW

Immediately following completion of the **[REDACTED]** and the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme), Kwong Luen Prosperity will be beneficially interested in **[REDACTED]**% of the issued Shares. Kwong Luen Prosperity is owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. Accordingly, Mr. Yip and Ms. Kwan are regarded as a group of Controlling Shareholders as they indirectly hold in aggregate **[REDACTED]**% of the issued Shares through Kwong Luen Prosperity, which is a common investment holding vehicle that exclusively holds their interests in our Company. For the purpose of the Listing Rules, Mr. Yip, Ms. Kwan and Kwong Luen Prosperity are our Controlling Shareholders.

OUR BUSINESS

As at the Latest Practicable Date, our Group principally engages in the provision of foundation services as a subcontractor in Hong Kong. For further details of our principal business, please refer to the section headed "Business" in this document.

During the Track Record Period, save as disclosed in this document, our Directors and our Controlling Shareholders confirm that our Group did not have any business dealings with the companies associated with or controlled by our Controlling Shareholders and there was no overlapping of business between our Group and our Controlling Shareholders and their respective close associates.

Other businesses of Mr. Yip and Ms. Kwan

During the Track Record Period and up to the Latest Practicable Date, Mr. Yip and/or Ms. Kwan, our Controlling Shareholders, was/were interested in the following companies/entity, namely Kwong Luen Co., Kwong Luen Development (Hong Kong) Limited ("**Kwong Luen Development**"), Fortune Dragon Investment (HK) Limited ("**Fortune Dragon**") and Let Wide Enterprise Limited ("**Let Wide**").

Mr. Yip was an owner and sole proprietor of Kwong Luen Co., which mainly engaged in construction works in Hong Kong since August 1990. With a view to avoid competition between our Group and Kwong Luen Co., Kwong Luen Co. was dissolved on 30 June 2018.

Each of Mr. Yip and Ms. Kwan was interested in 50% of the shareholding interest of Kwong Luen Development, which was a limited liability company incorporated in Hong Kong on 1 March 2011. Kwong Luen Development was a property holding company and was deregistered on 20 December 2019.

Please refer to the paragraph headed "Directors and Senior Management – Directors" in this document for details of Kwong Luen Co. and Kwong Luen Development.

Fortune Dragon, which is a limited liability company incorporated in Hong Kong on 20 August 2012, was owned as to 50% each by Mr. Yip and Mr. Yip Siu Lung ("**Mr. Yip Siu Lung**"), the nephew of Mr. Yip, as at 31 March 2018 and subsequently owned as to 50% each by Mr. Yip Siu Lung and Ms. Yip Wing Wai ("**Ms. Yip**"), the daughter of Mr. Yip, as at 31 March 2019 and 31 March 2020. The principal business activities of Fortune Dragon included property holding and machinery rental. It had ceased its machinery rental business during the year ended 31 August 2018. Our Group had not procured any machinery rental services from Fortune Dragon during the Track Record Period.

Save as disclosed in this section of the document and certain personal loans granted by Mr. Yip and Ms. Kwan to Mr. Yip Siu Lung in an aggregate amount of HK$20.0 million to support his business undertakings, namely Kwong Luen Construction Machinery Limited ("**KLCM**") and family investment, Mr. Yip Siu Lung has no other past or present relationships (including, without limitation, business, employment, financing or otherwise) with our Company, subsidiaries, Shareholders, Directors, senior management, or any of their respective associates. Neither Mr. Yip Siu Lung nor KLCM has ever held any direct or indirect interests in any members of our Group since our establishment and Mr. Yip Siu Lung has never been involved in the daily operation or management of our Group. KLCM is a limited liability company incorporated in Hong Kong on 21 October 2005 which is equally owned by Mr. Yip Siu Lung and Mr. Ip Kwong Man, being the uncle of Mr. Yip Siu Lung and brother of Mr. Yip. The principal business of KLCM is trading of second-hand machinery and hiring of machinery. Neither Mr. Yip nor Ms. Kwan has ever held directorship or shareholding in or been involved in the daily operation or management of KLCM since its incorporation. Further, the executive Directors confirmed that none of our Group's expenses were borne by any related persons or third parties without being recharged to our Group during the Track Record Period and up to the Latest Practicable Date.

Each of Mr. Yip and Ms. Kwan is interested in 50% of the shareholding interest of Let Wide, which is a limited liability company incorporated in Hong Kong on 26 March 1991. Let Wide is a property holding company.

Going forward, both Fortune Dragon and Let Wide will remain as property holding companies.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group's business independent of and without undue influence on our Controlling Shareholders and their close associates (other than our Group) upon the **[REDACTED]**.

Management independence

Composition of the Board and management team

Our Board consists of five Directors, comprising two executive Directors and three independent non-executive Directors. Mr. Yip and Ms. Kwan are the executive Directors and are also the directors of both Kwong Luen Prosperity and Kwong Luen Success.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum.

In the circumstances where our executive Directors are required to abstain from voting due to conflicts of interests, our independent non-executive Directors will make independent judgement for the decision-making process of the Board.

In addition, our Company has a management team led by a team of senior management. All of our senior management personnel are independent from our Controlling Shareholders. Each of our senior management personnel has his relevant experience and expertise in the industry we are engaged in and has served our Group for a period of time during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders. Further details of our Directors and senior management are set out in the section headed "Directors and senior management" in this document.

Committees of the Board

We have established the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee consists of a majority of our independent non-executive Directors. Further, we believe that our independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinion and professional advice in the decision-making process of the Board to protect the interests of our Shareholders.

Based on the above, our Directors are satisfied that the Board as a whole together with our senior management are able to perform the managerial role in our Group independently.

Operational independence

Save as the employment of certain employees who are connected to our Controlling Shareholders as disclosed in the section headed "Continuing connected transactions" in this document, our operations are independent of and not connected with any of our Controlling Shareholders. Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. We have a clear business delineation with our Controlling Shareholders. As at the Latest Practicable Date, our Group has not shared any operational resources, such as office premises, sales and marketing and general administration resources with our Controlling Shareholders and their respective close associates. Our Group has established a set of internal control measures to facilitate the effective operations of its business.

On the basis of the matters disclosed above, our Directors believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and their respective close associates upon the **[REDACTED]**.

Financial independence

Our Group has our own financial management and accounting systems, accountant and administration department and independent treasury functions, and we make financial decision according to our own business needs.

During the Track Record Period, our Group's bank loan and overdrafts were secured by (i) the legal charge over properties owned by Fortune Dragon, a company held by Mr. Yip and Mr. Yip Siu Lung as at 31 March 2018, and subsequently held by Mr. Yip Siu Lung and Ms. Yip as at 31 March 2019 and 31 March 2020; and (ii) the joint and several personal guarantees given by Mr. Yip, Ms. Kwan and Mr. Yip Siu Lung. Such bank loan and overdrafts originated from a mortgage loan application by Fortune Dragon for its acquisition of properties back in March 2013. By the time Fortune Dragon applied for the mortgage loan, it was required by the issuing bank to procure a third party company to provide a corporate guarantee to secure its liability under the mortgage loan. Based on enquiries with the issuing bank, it is a common practice for commercial banks to require companies with short operating history and/or with small operation scale to obtain corporate guarantee from an additional third party company as security.

Fortune Dragon was incorporated in August 2012 and it had a short operating history by the time it applied for the mortgage loan in early 2013. Hence, in line with the common practice, Fortune Dragon was required by the issuing bank to provide a corporate guarantee from a third party company to secure its liability under the mortgage loan. Mr. Yip Siu Lung discussed with his uncle, Mr. Yip, who then held 50% shareholding interests in Fortune Dragon, whether he could assist to procure Kwong Luen Engineering in fulfilling the requests of the issuing bank. With a view to assisting his nephew and to facilitating the development of Fortune Dragon, Mr. Yip agreed that he could procure Kwong Luen Engineering to provide a corporate guarantee as security for the mortgage loan of Fortune Dragon.

In consideration of the provision of corporate guarantee by Kwong Luen Engineering, the issuing bank, as a commercial practice, proposed a loan package under which (i) Fortune Dragon would be offered a mortgage loan; and (ii) Kwong Luen Engineering would be offered an overdraft and a revolving loan. Given Mr. Yip Siu Lung was a director and shareholder of Fortune Dragon, he was also required to provide a personal guarantee for the loan package. As confirmed by Mr. Yip and Mr. Yip Siu Lung, the aforesaid loan arrangements, which dated back to 2013, were implemented primarily to facilitate Fortune Dragon to conduct its property investment business. The aforementioned bank loan and overdrafts have been settled with the release of the legal charge and guarantees in May 2020.

Further, our Group was granted with a new bank facility amounting to approximately HK$21.8 million in August 2020, comprising HK$18.0 million of bank loans for working capital purpose and approximately US$484,000 of life insurance loan. The bank facility is secured by (i) a legal charge over a property owned by Ms. Kwan; and (ii) the joint and several personal guarantees given by Mr. Yip and Ms. Kwan. The bank has confirmed in writing that the legal charge and personal guarantees of the abovementioned bank facility will be released upon **[REDACTED]**.

During the Track Record Period, we had entered into a hire purchase agreement secured by personal guarantee given by Mr. Yip, which was subsequently released during FY2019/20.

During the Track Record Period, our Group acted as a guarantor for:

(i) a bank facility granted to Ms. Yip of approximately HK$3.8 million, HK$3.7 million and HK$3.6 million as at 31 March 2018, 31 March 2019 and 31 March 2020, respectively, which was secured by (i) the legal charge over a property owned by Ms. Kwan and (ii) the corporate guarantee given by our Group. The corporate guarantee of the aforementioned bank facility was released in June 2020; and

(ii) a bank facility granted to Fortune Dragon of approximately HK$8.3 million, HK$7.9 million and HK$7.6 million as at 31 March 2018, 31 March 2019 and 31 March 2020, respectively, which was secured by (i) the legal charge over properties owned by Fortune Dragon; (ii) the personal guarantee given by Mr. Yip Siu Lung; and (iii) the corporate guarantee given by our Group. The corporate guarantee of the aforementioned bank facility was released in June 2020; and

(iii) a bank facility granted to a related company, Kwong Luen Development (Hong Kong) Limited during FY2017/18 and the guarantee was released as at 31 March 2018. Kwong Luen Development (Hong Kong) Limited was held by Mr. Yip and Ms. Kwan during the Track Record Period and it was deregistered on 29 December 2019.

Having considered the above factors, our Directors consider that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders and thus there is no financial dependence on our Controlling Shareholders.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business apart from our Group's business which competes, or may compete, directly or indirectly, with our Group's business which requires disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition between our Group and our Controlling Shareholders, our Controlling Shareholders entered into the Deed of Non-competition with our Company (for itself and for the benefit of each other member of our Group) on 19 February 2021. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for itself and as trustee for its subsidiaries) that, as long as the Deed of Non-competition remains effective, he/she/it shall not, and shall procure his/her/its close associates (other than any member of our Group), whether on his/her/its own account or under the name of others, not to develop, acquire, invest in, participate in, carry on or be engaged in, concerned with or interested in or otherwise be involved, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person, firm or company or otherwise, in any business in competition with or likely to be in competition whether directly or indirectly, with the existing business activity of any member of our Group or such other business activity our Group may engage from time to time in future.

Each of our Controlling Shareholders further undertakes that if he/she/it or his/her/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/she/it shall (and he/she/it shall procure his/her/its close associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Each of our Controlling Shareholders further undertakes that he/she/it will and he/she/it shall procure that his/her/its close associates (other than any member of our Group) will notify us of the aforesaid business opportunities and use his/her/its best endeavors to procure that the business opportunities are first offered to our Group on terms and conditions no less favorable than those offered to our Controlling Shareholders or their close associates.

Within thirty (30) Business Days (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time) after receipt of written notice concerning offer of any business opportunity from our Controlling Shareholders, our Company shall notify our Controlling Shareholders in writing whether we intend to accept the offer. If our Group declines any such offer, our Controlling Shareholders or their associates who offered the business opportunity shall then be allowed to acquire the interests offered on terms no more favorable than those offered to our Group. Whether our Company shall accept or decline the offer of business opportunity shall be solely determined by our independent non-executive Directors.

The relevant Controlling Shareholder(s) and the other interested Directors or potential interested Directors (if any, including our independent non-executive Directors) shall abstain from participating in all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the Board for considering whether or not to exercise the first right of refusal. Whether to exercise the first right of refusal shall be solely determined by our independent non-executive Directors. Where appropriate, our

Company may appoint independent financial advisers and legal advisers for advising on the proposed exercise of the first right of refusal.

The non-competition undertakings under the Deed of Non-competition shall not restrict any Controlling Shareholder (or any of their respective close associates), either by himself/herself/itself or any other person, from holding interests in the shares of a company which is **[REDACTED]** on a recognised stock exchange provided that:

(a) any business that competes or is likely, directly or indirectly, to compete with our Group conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

(b) the total number of the shares directly or indirectly held by all our Controlling Shareholders and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of that company in question or control the exercise of more than 5% of the voting rights thereof, or control the composition of a majority of the board of directors of such company and that there should exist at least another shareholder of the company who holds more shares in that company than such Controlling Shareholders and/or their respective close associates in aggregate.

The undertakings contained in the Deed of Non-competition are conditional on the **[REDACTED]** of our Company. If such condition is not fulfilled on or before the date falling 30 days after the date of this document (or if such date is not a Business Day, the immediate preceding Business Day), the Deed of Non-competition shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the others under the Deed of Non-competition.

The Deed of Non-competition shall terminate on (i) our Controlling Shareholders, together with his/her/its close associates, taken together, cease to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which the Shares shall cease to be **[REDACTED]** and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/she/it fully comprehends his/her/its obligations to act in the best interests of our Company and its Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

(a) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Controlling Shareholders (or their associates), the interested Directors shall abstain from voting at the relevant Board meeting and shall not be counted in the quorum;

(b) our Controlling Shareholders will make an annual confirmation as to compliance with his/her/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;

(c) the Board is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board which can effectively exercise independent judgement. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and senior management" in this document;

(d) our Company has appointed Grande Capital Limited as the compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls. Please refer to the paragraph headed "Directors and senior management – Compliance adviser" in this document for details in relation to the appointment of compliance adviser;

(e) our Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and

(f) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our annual report after the **[REDACTED]**.

Upon the **[REDACTED]**, Mr. Yip and Ms. Kwan will be our Controlling Shareholders, and they and their respective associates will constitute connected persons of our Company. Any transactions between our Group and Mr. Yip, Ms. Kwan or their respective associates will constitute connected transactions or continuing connected transactions upon the **[REDACTED]**. Currently, there are transactions between our Group and the respective associates of Mr. Yip and Ms. Kwan which are expected to continue after the **[REDACTED]**. The following transactions will constitute continuing connected transactions of our Company upon the **[REDACTED]** under Chapter 14A of the Listing Rules:

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Employment contracts

(a) Description of the transaction

On 1 November 2011 and 27 March 2017, Mr. Yip Wing Yin and Ms. Yip Wing Wai entered into written employment contracts (as amended and supplemented) with Kwong Luen Engineering as assistant engineer and administration clerk and subsequently promoted as manager and manager respectively (the "**Employment Contracts**"). We expect Mr. Yip Wing Yin and Ms. Yip Wing Wai shall continue to be employed by Kwong Luen Engineering at the same position upon, and following, the **[REDACTED]**. On 19 February 2021, Mr. Yip Wing Yin and Ms. Yip Wing Wai respectively entered into supplemental agreements with our Group to amend the term of the Employment Contracts for a term of three years from the **[REDACTED]**.

(b) Historical transaction amounts and annual caps on future transaction amounts

The aggregate remuneration paid to Mr. Yip Wing Yin and Ms. Yip Wing Wai for FY2017/18, FY2018/19 and FY2019/20 amounted to approximately HK$1.2 million, HK$1.4 million and HK$1.5 million respectively. Our Directors estimate that the annual salary payable to Mr. Yip Wing Yin and Ms. Yip Wing Wai in aggregate shall not exceed HK$1.6 million, HK$1.7 million, and HK$1.8 million for FY2020/21, FY2021/22 and FY2022/23 respectively, as determined by our Directors with reference to the contractual amounts payable to Mr. Yip Wing Yin and Ms. Yip Wing Wai under the Employment Contracts and subsequent adjustments made thereafter.

(c) Implications under the Listing Rules

Mr. Yip Wing Yin and Ms. Yip Wing Wai are the son and daughter of Mr. Yip and Ms. Kwan, our executive Directors and Controlling Shareholders, respectively; and therefore, they are connected persons of our Company under Rule 14A of the Listing Rules. As such, the remunerations contemplated under the Employment Contracts constitute continuing connected transactions of our Company.

Each of the relevant percentage ratios on annual basis calculated for the purpose of Chapter 14A of the Listing Rules and as our Directors currently expect, will not exceed 5% and the annual consideration will not exceed HK$3.0 million. As such, the remunerations contemplated under the Employment Contracts constitute *de minimis* transactions fully exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules. Should such annual remuneration amount exceed the relevant threshold, our Company shall comply with the Listing Rules, where applicable.

CONFIRMATION

Directors' confirmation

Our Directors confirm that the continuing connected transactions in respect to the Employment Contracts have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable and in the interest of our Company and the Shareholders as a whole. Our Directors further confirm that the proposed annual caps in respect to the continuing connected transactions under the Employment Contracts are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

Compliance with the Listing Rules

If the material terms of the Employment Contracts are altered to the extent that they are no longer exempted continuing connected transactions or if we enter into any new agreements or arrangements with any connected persons in the future under which the aggregate consideration paid or payable by us exceed the limits for exempted connected transactions or exempted continuing connected transactions referred to in the Listing Rules, our Company will comply with the relevant requirements of the Listing Rules.

Confirmation from the Sponsor

The Sponsor has reviewed the documents and information provided by our Group and has participated in the due diligence and discussions with our Group and its legal advisers. Based on the above, the Sponsor is of the view that the continuing connected transactions under the Employment Contracts have been entered into in the ordinary and usual course of business of our Group and on normal commercial terms and are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the **[REDACTED]** and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Share to be issued upon exercise of the options which may be granted under the Share Option Scheme), the following persons/entities will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the issued voting Shares of our Company or any other member of our Group:

		As at the date of this document		Immediately after completion of the [REDACTED] and the [REDACTED]	
Name of Shareholder	**Capacity/Nature of interest**	**Number of shares held/ interested in our Company**	**Percentage of shareholding in our Company**	**Number of shares held/ interested in our Company**	**Percentage of shareholding in our Company**
Kwong Luen Prosperity *(Notes 1, 2)*	Beneficial owner	One	100%	**[REDACTED]**	**[REDACTED]**%
Mr. Yip *(Notes 1, 3)*	Interest of a controlled corporation; family interest	One	100%	**[REDACTED]**	**[REDACTED]**%
Ms. Kwan *(Notes 1, 3)*	Interest of a controlled corporation; family interest	One	100%	**[REDACTED]**	**[REDACTED]**%

Notes:

1. Kwong Luen Prosperity is jointly owned as to 50% by Mr. Yip and 50% by Ms. Kwan. Under the SFO, they are both deemed or taken to be interested in all the Shares held by Kwong Luen Prosperity.

2. Kwong Luen Prosperity is the direct Shareholder of our Company.

3. Ms. Kwan is the spouse of Mr. Yip. Accordingly, each of them is deemed or taken to be interested in all the Shares which the other is interested for the purpose of the SFO.

Save as disclosed above, our Directors are not aware of any person who will or any entity which will, immediately following the completion of the **[REDACTED]** and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Share to be issued upon exercise of the options which may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the issued voting Shares of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following is a description of the share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately after completion of the **[REDACTED]** and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Shares to be issued upon exercise of the options which may be granted under the Share Option Scheme):

Authorized share capital

		HK$
[REDACTED]	Shares of HK$0.01 each	**[REDACTED]**

Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and the [REDACTED]

		HK$
1	Shares in issue as of the date of this document	0.01
[REDACTED]	Shares to be issued pursuant to the **[REDACTED]**	**[REDACTED]**
[REDACTED]	Shares to be issued pursuant to the **[REDACTED]**	**[REDACTED]**
[REDACTED]	Shares in total *(Note)*	**[REDACTED]**

Note: If the **[REDACTED]** is exercised in full, then **[REDACTED]** additional Shares will be allotted and issued resulting in a total issued share capital of **[REDACTED]** Shares with an aggregate nominal value of HK$**[REDACTED]**.

Assumptions

The above table assumes that the **[REDACTED]** and the **[REDACTED]** become unconditional and the issue of **[REDACTED]** pursuant thereto is made as described herein. It does not take into account: (i) any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** or the exercise of any options which may be granted under the Share Option Scheme; (ii) any Shares which may be allotted and issued pursuant to the general mandate as mentioned in "General mandate to issue Shares" in this section below; or (iii) any Shares which may be repurchased by our Company pursuant to the repurchase mandate as mentioned in "General mandate to repurchase Shares" in this section below.

RANKING

The **[REDACTED]** will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all of the Shares currently in issue or to be issued as mentioned in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document save for the entitlement under the **[REDACTED]**.

[REDACTED]

Pursuant to the written resolutions of our sole Shareholder passed on 19 February 2021 and subject to the conditions set out therein, our Directors were authorised to allot and issue a total of **[REDACTED]** Shares credited as fully paid at par to the Shareholders whose name appears on the register of members of our Company at close of business on 19 February 2021 by way of **[REDACTED]** of the sum of HK$**[REDACTED]** standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares. For further details, please refer to the paragraph headed "A. Further information about our Company – 3. Written resolutions of our sole Shareholder passed on 19 February 2021" in Appendix IV to this document.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of the **[REDACTED]** and at all times thereafter, our Company must maintain the minimum prescribed percentage of **[REDACTED]** of our Company's issued share capital in the hands of the public (as defined in the Listing Rules).

GENERAL MANDATE TO ISSUE SHARES

Assuming the **[REDACTED]** becomes unconditional, our Directors will be granted a general mandate to allot, issue and deal with Shares not exceeding:

(a) 20% of the aggregate number of issued Shares immediately following the completion of the **[REDACTED]** and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and without taking into account any Share to be issued upon exercise of the options which may be granted under the Share Option Scheme); and

(b) the total number of issued Shares repurchased by our Company under the mandate as mentioned in "General mandate to repurchase Shares" in this section below.

The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Articles of Association, or pursuant to the exercise of any subscription rights attached to any warrants which may be issued by us from time to time. The general mandate does not include any Share which may be issued pursuant to the exercise of the **[REDACTED]** or the exercise of any options which may be granted under the Share Option Scheme).

This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which our Company is required by the Articles or any applicable laws of the Cayman Islands to hold its next annual general meeting; or

(c) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

Particulars of this general mandate to allot, issue and deal with Shares are set out in the paragraph headed "A. Further information about our Company – 3. Written resolutions of our sole Shareholder passed on 19 February 2021" in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in "Structure and Conditions of the **[REDACTED]**", our Directors will be granted a general mandate to exercise all our powers to repurchase Shares which represent up to 10% of the aggregate number of issued Shares of our Company immediately following the completion of the **[REDACTED]** and the **[REDACTED]**, excluding any Share which may be allotted and issued pursuant to the exercise of the **[REDACTED]** or the exercise of any options which may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are **[REDACTED]** (and which is recognised by the SFC and the Stock Exchange for this purpose), which are made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "A. Further information about our Company – 6. Repurchase of Shares by our Company" in Appendix IV to this document.

The general mandate to issue and repurchase Shares will remain in effect until the earliest of:

(1) the conclusion of the next annual general meeting of our Company;

(2) the expiration of the period within which our Company is required by the Articles or any applicable laws of the Cayman Islands to hold its next annual general meeting; or

(3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme are set out in the paragraph headed "D. Share Option Scheme" in Appendix IV to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

The circumstances under which general meeting is required are provided in the Articles, the summary of which is set out in the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix III to this document.

The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's combined financial statements as at the end of and for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, including the notes thereto, included in Appendix I to this document. The combined financial statements of our Group has been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this document.

OVERVIEW

We are a foundation works contractor in Hong Kong. We commenced our business in 1995 and have since undertaken foundation works in the role of subcontractor through Kwong Luen Engineering, our principal operating subsidiary. According to the F&S Report, we were ranked as the fourth largest (in terms of revenue) foundation works subcontractor in Hong Kong in 2019, and accounted for approximately 1.7% market share of the foundation industry[(Note)]. During the Track Record Period, the foundation works undertaken by us mainly comprised ELS and other associated works including pile cap construction, underground drainage works and site formation works. Our foundation works services are widely required in residential and non-residential developments such as commercial and infrastructure developments. In particular, we have established a solid track record in undertaking foundation works mainly in residential developments initiated by private property developers in Hong Kong. During the Track Record Period, the majority of our revenue was derived from foundation works in residential developments. For further information about the services of our Group, please refer to the section headed "Business – Description of our services" in this document.

Note: The ranking is computed based on public information and does not include foundation works subcontractors that were not listed on the Stock Exchange due to lack of public information.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including, in particular, the following:

Availability of construction projects in Hong Kong

The future development of the foundation industry and the availability of foundation projects in Hong Kong depend largely on the continued development of the property market in Hong Kong. The nature, extent and timing of available foundation projects will be determined by an interplay of a variety of factors, including the Government's policies on the property market in Hong Kong, its land supply and public housing policy, the investment of property developers and the general conditions and prospects of Hong Kong's economy. These factors may affect the availability of foundation projects in Hong Kong.

If there is any slowdown (in terms of transaction volume and price) of the property market in Hong Kong, there is no assurance that the availability of foundation projects in Hong Kong would not decrease significantly and our Group's business and financial position and prospect may be adversely and materially affected.

Accuracy in our estimation of time and costs involved in projects

When determining our tender price, our management would estimate the time and costs involved in a project taking 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; (ix) the estimated cost for waste disposal; and (x) the prevailing market conditions. For further details on our pricing strategy, please refer to the section headed "Business – Pricing strategy" in this document.

There is no assurance that the actual amount of time and costs incurred during the performance of our projects would not exceed our estimation. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including unforeseen site conditions, adverse weather conditions, accidents, non-performance by our subcontractors, unexpected significant increase in costs of materials agreed to be borne by us, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

Use of machinery in our operation

Our service capacity for foundation projects generally depends on the availability of our machinery. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, accidents, fire, adverse weather conditions, theft or robbery. In addition, machinery may break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or if any lost machinery cannot be replaced in a timely manner, our operations and financial performance could be adversely affected.

Availability and performance of our subcontractors and our ability to complete works on time

Our Group may from time to time subcontract some of our works. In order to control and ensure the quality and progress of the works of our subcontractors, our Group selects subcontractors based on, among others, their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. For FY2017/18, FY2018/19, FY2019/20, the five months ended 31 August 2019 and the five months ended 31 August 2020, our subcontracting fees amounted to approximately HK$55.5 million, HK$102.2 million, HK$130.7 million, HK$31.9 million and HK$49.9 million, respectively, representing approximately 36.8%, 42.7%, 37.1%, 48.8% and 25.9% of our cost of sales, respectively. There is no assurance that the work quality of our subcontractors can always meet our requirements. We may not be able to monitor the performance of our subcontractors as directly and efficiently as with our own labour. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could impact upon our profitability, financial performance and reputation. In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

Fluctuation in our cost of sales

Our cost of sales mainly comprise (i) subcontracting fees; (ii) direct labour costs; and (iii) materials costs. Please refer to the section headed "Business – Our suppliers and subcontractors" in this document for further details of our suppliers and subcontractors.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of subcontracting fees and direct labour costs, and materials costs (being the major components of our cost of sales) on our profit before tax during the Track Record Period. The hypothetical fluctuation rates for subcontracting fees and direct labour costs are set at 0.1% and 15.8%, respectively, which correspond to the approximate minimum and maximum percentage changes in the average daily wages of workers engaged in engineering works in Hong Kong from 2014 to 2019 as stated in the F&S Report (see "Industry overview – Price trend of major cost components – Average wages of foundation industry" in this document), and are therefore, considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rates for materials costs are set at 0.3% and 26.9%, respectively, which correspond to the approximate minimum and maximum percentage changes in the average price of concrete blocks, steel plates, steel angles, steel flats, steel bars and uPVC pipes in Hong Kong from 2014 to 2019 as stated in the F&S Report (see "Industry overview – Price trend of major cost components – Price trends of foundation works materials" in this document), and are therefore, considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in subcontracting fees and direct labour costs	-0.1%	-15.8%	0.1%	15.8%
Increase/(decrease) in profit before tax *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2017/18	75	11,924	(75)	(11,924)
FY2018/19	134	21,186	(134)	(21,186)
FY2019/20	174	27,456	(174)	(27,456)
For the five months ended 31 August 2020	70	11,092	(70)	(11,092)
Hypothetical fluctuations in materials costs	-0.3%	-26.9%	0.3%	26.9%
Increase/(decrease) in profit before tax *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FY2017/18	72	6,415	(72)	(6,415)
FY2018/19	158	14,163	(158)	(14,163)
FY2019/20	343	30,718	(343)	(30,718)
For the five months ended 31 August 2020	223	19,969	(223)	(19,969)

Note:

1. Our profit before tax was approximately HK$16.8 million, HK$30.1 million, HK$46.4 million and HK$18.6 million for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively.

BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Please refer to note 2.1 and note 2.2 of the Accountants' Report as set out in Appendix I to this document.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The financial information of our Group has been prepared in accordance with accounting policies which conform with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 3 to the Accountants' Report as set out in Appendix I to this document, while the significant accounting judgements and estimates adopted by our Group are set forth in note 4 to the Accountants' Report as set out in Appendix I to this document.

Revenue recognition from construction services

For FY2017/18, FY2018/19, FY2019/20, the five months ended 31 August 2019 and the five months ended 31 August 2020, our Group recognised revenue from construction contracting businesses amounting to approximately HK$170.2 million, HK$272.9 million, HK$404.8 million, HK$74.9 million and HK$221.2 million, respectively. We recognised revenue from the provision of construction services over time, using an input method to measure progress towards complete satisfaction of the service, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total cost of sales incurred and forecasts in relation to costs to complete.

Provision for expected credit losses on trade receivables and contract assets

Our Group measures loss allowance under expected credit losses ("**ECL**") model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. We recorded an impairment of contract assets of approximately HK$1.3 million and impairment of trade receivables of approximately HK$0.2 million as at 31 August 2020, respectively. The information about the ECLs on our Group's trade receivables and contract assets is disclosed in notes 17 and 16 to the Accountants' Report as set out in Appendix I to this document, respectively.

ADOPTION OF HKFRS 9, HKFRS 15 AND HKFRS 16

Our historical financial information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs, including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from contracts with customers", amendments to HKFRS 15 "Classifications to HKFRS 15 Revenue from contracts with customers", which are effective for the accounting period commencing from 1 April 2018, and HKFRS 16 "Leases", which is effective for the accounting period commencing from 1 April 2019, together with the relevant transitional provisions, have been early adopted and consistently applied by our Group in the preparation of the historical financial information throughout the Track Record Period.

We have carried out internal assessments based on the principles set out in HKAS 39, HKAS 11 and HKAS 17, and set forth below certain estimated key impact on our financial position and performance if HKAS 39, HKAS 11 and HKAS 17 were adopted instead:

– Adoption of new impairment model: HKFRS 9 requires the recognition of impairment provisions of financial assets measured at amortised cost based on expected credit losses while it is based on as-incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference on bad debt provision and the adoption of HKFRS 9 did not have any significant impact on our Group's financial position and performance as compared with HKAS 39.

– Revenue recognition: Under HKFRS 15, our Group's revenue from ELS and other associated works including pile cap construction, underground drainage works and site formation works are recognised over time using the input method with reference to the actual costs incurred relative to the estimated total costs. Under HKAS 11, our Group's revenue from ELS and other associated works including pile cap construction, underground drainage works and site formation works would be recognised using percentage of completion method. Our Directors considered that the adoption of HKFRS 15, as compared to the requirements of HKAS 11, did not have any significant impact on our financial position and performance during the Track Record Period, except for reclassification in relation to gross amount due from customers for contract work-in-progress and gross amount due to customers for contract work-in-progress to contract assets and contract liabilities respectively.

– Leases: Under HKAS 17, operating lease commitments are disclosed in a note to the financial statement and are not recognised in statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets in our financial statements) and financial liabilities (being the lease liabilities in our financial statements). Based on our internal assessment on the adoption of HKFRS 16, the impact on our net assets and net profit was insignificant as compared to that of HKAS 17.

The table set forth below summarised the impacts of the adoption of HKFRS 16 on certain key items of our combined financial statements:

	Currently reported under HKFRS 16	**As if reported under HKAS 17**	**Difference**
	(a)	*(b)*	*(a) – (b)*
	HK$'000	*HK$'000*	*HK$'000*
Profit and total comprehensive income for the year/period			
FY2017/18	14,041	14,043	(2)
FY2018/19	25,156	25,214	(58)
FY2019/20	38,408	38,431	(23)
For the five months ended 31 August 2020	14,340	14,345	(5)
Total assets			
As at 31 March 2018	60,997	60,804	193
As at 31 March 2019	92,178	91,222	956
As at 31 March 2020	115,041	114,487	554
As at 31 August 2020	134,936	134,550	386
Total liabilities			
As at 31 March 2018	22,739	22,543	196
As at 31 March 2019	28,764	27,749	1,015
As at 31 March 2020	34,219	33,583	636
As at 31 August 2020	39,774	39,301	473
Net assets			
As at 31 March 2018	38,258	38,261	(3)
As at 31 March 2019	63,414	63,473	(59)
As at 31 March 2020	80,822	80,905	(83)
As at 31 August 2020	95,162	95,249	(87)

The above-mentioned differences are primarily due to the increase in our right-of-use assets and lease liabilities in the combined statements of financial position; and increase in depreciation and interest expenses and decrease in rental expenses in the combined statements of comprehensive income for the Track Record Period as a result of the adoption of HKFRS 16.

SUMMARY OF RESULTS OF OPERATIONS

The combined statements of profit or loss and other comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountants' Report set out in Appendix I to this document:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	170,225	272,916	404,825	74,918	221,235
Cost of sales	(150,746)	(239,692)	(352,608)	(65,375)	(192,712)
Gross profit	19,479	33,224	52,217	9,543	28,523
Other income and gains	321	1,105	450	229	1,562
Administrative expenses	(2,821)	(4,021)	(4,157)	(1,883)	(3,824)
Finance costs	(164)	(181)	(195)	(82)	(32)
[REDACTED]	–	–	**[REDACTED]**	–	**[REDACTED]**
Profit before tax	16,815	30,127	46,380	7,807	18,629
Income tax expenses	(2,774)	(4,971)	(7,972)	(1,288)	(4,289)
Profit and total comprehensive income for the year/period	14,041	25,156	38,408	6,519	14,340
Profit and total comprehensive income attributable to:					
Owners of the Company	14,041	25,156	38,408	6,519	14,340

Non-HKFRS measures

The following table sets forth our adjusted net profit and adjusted net profit margin for each respective financial year/period during the Track Record Period:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before tax	16,815	30,127	46,380	18,629
Net profit	14,041	25,156	38,408	14,340
Add: **[REDACTED]**	–	–	**[REDACTED]**	**[REDACTED]**
Adjusted net profit	14,041	25,156	40,343	21,940
Adjusted net profit margin	8.2%	9.2%	10.0%	9.9%

We recognised non-recurring items such as **[REDACTED]** during the Track Record Period and therefore we also present the adjusted net profit for the financial year/period, which is a non-HKFRS measure to supplement our combined financial information which are presented in accordance with HKFRS. There was no tax impact on the adjusted net profit for **[REDACTED]** as such expenses were non-deductible, such that the tax expenses was the same as adjusted tax expenses.

We present such additional financial measure as it was used by our management to evaluate our financial performance by eliminating the impact of **[REDACTED]**, which is with one-off nature and is considered not indicative for evaluation of the actual performance of our business. Our Directors believe that such non-HKFRS measure provides additional information to **[REDACTED]** and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was primarily derived from the provision of foundation works services in Hong Kong, which mainly comprised ELS and other associated works including pile cap construction, underground drainage works and site formation works. For detailed breakdowns of our revenue during the Track Record Period by type of development (residential and non-residential) and by project sector (private sector and public sector), please refer to the section headed "Business – Projects undertaken during the Track Record Period" in this document.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our revenue during the Track Record Period.

Cost of sales

The table below sets forth a breakdown of our cost of sales during the Track Record Period:

	FY2017/18		FY2018/19		FY2019/20		For the five months ended 31 August 2019		For the five months ended 31 August 2020	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Subcontracting fees	55,506	36.8	102,239	42.7	130,720	37.1	31,871	48.8	49,905	25.9
Materials	23,848	15.8	52,651	22.0	114,193	32.4	8,941	13.7	74,235	38.5
Waste disposal services	40,849	27.1	40,726	17.0	45,062	12.8	2,965	4.5	37,049	19.2
Direct labour	19,963	13.2	31,849	13.3	43,050	12.2	16,745	25.6	20,295	10.5
Depreciation	5,230	3.5	5,999	2.5	7,223	2.0	2,676	4.1	3,241	1.7
Fuel	2,205	1.5	3,430	1.4	5,038	1.4	996	1.5	4,504	2.3
Rental of machinery	1,778	1.2	613	0.3	3,411	1.0	172	0.3	1,805	1.0
Others	1,367	0.9	2,184	0.9	3,911	1.1	1,009	1.5	1,678	0.9
Total	150,746	100.0	239,692	100.0	352,608	100.0	65,375	100.0	192,712	100.0

Our cost of sales during the Track Record Period mainly comprised:

(a) subcontracting fees, which represented costs for engaging subcontractors mainly for certain ELS works such as shoring works and certain pile cap construction including steel reinforcement works and formwork erection works;

(b) materials costs, which represented costs for purchasing construction materials required for performing foundation works such as metal parts and concrete;

(c) waste disposal services expenses, which represented expenses for engaging suppliers for transporting construction wastes resulting from our foundation services from work sites to landfills or other construction sites of land reclamation work;

(d) direct labour costs, which represented salaries and benefits provided to our staff who are directly involved in carrying out our foundation works;

(e) depreciation, which represented depreciation charges in respect of our owned machinery that are directly deployed in our projects;

(f) fuel expenses, which represented costs of fuel for our machinery that are directly deployed in our projects;

(g) rental of machinery, which represented rental costs for renting machinery necessary for carrying out our foundation works; and

(h) other cost of sales, which include various miscellaneous expenses such as repair and maintenance for our machinery, transporting machinery to and from our work sites and testing fee.

Gross profit and gross profit margin

For FY2017/18, FY2018/19, FY2019/20, and the five months ended 31 August 2019 and the five months ended 31 August 2020, our overall gross profit was approximately HK$19.5 million, HK$33.2 million, HK$52.2 million, HK$9.5 million and HK$28.5 million, respectively, while our overall gross profit margin remained broadly stable at approximately 11.4%, 12.2%, 12.9%, 12.7% and 12.9% for FY2017/18, FY2018/19, FY2019/20, the five months ended 31 August 2019 and the five months ended 31 August 2020, respectively.

For the fluctuations of overall gross profit and overall gross profit margin during the Track Record Period, please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section.

Other income and gains

The table below sets forth a breakdown of our other income and gains during the Track Record Period:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	–	–	2	–	–
Rental income from leasing of machineries	152	–	22	12	211
Gain on disposal of items of property, plant and equipment	–	154	–	–	–
Others	169	951	426	217	1,351
Total	321	1,105	450	229	1,562

Our other income and gains during the Track Record Period mainly comprised:

(a) interest income, which represented interest generated from our Group's deposit in the bank;

(b) rental income from leasing of machineries, which was derived from the leasing of our own machineries to other third party contractors;

(c) gain on disposal of items of property, plant and equipment, which represented our gain on disposal of our excavator to other third party trading company; and

(d) others, which mainly represented the income generated from other one-off miscellaneous works, such as removal of debris and other minor concrete works, etc. and the one-off subsidies received by us during the five months ended 31 August 2020 under the Employment Support Scheme as granted by the Government to qualified companies in the construction industry in response to the outbreak of the novel coronavirus in Hong Kong.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our other income and gains.

Administrative expenses

The table below sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2017/18		FY2018/19		FY2019/20		For the five months ended 31 August 2019		For the five months ended 31 August 2020	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff cost, including directors' emoluments	1,589	56.3	1,940	48.2	2,490	59.9	928	49.3	1,261	33.0
Depreciation	242	8.6	379	9.4	410	9.9	171	9.1	170	4.4
Professional fees	231	8.2	659	16.4	334	8.0	207	11.0	602	15.7
Entertainment	435	15.4	547	13.6	442	10.6	289	15.3	41	1.1
Motor vehicle expenses	130	4.6	124	3.1	158	3.8	73	3.9	26	0.7
Impairment of contract assets and trade receivables	–	–	–	–	–	–	–	–	1,509	39.5
Others	194	6.9	372	9.3	323	7.7	215	11.4	215	5.6
Total	2,821	100.0	4,021	100.0	4,157	100.0	1,883	100.0	3,824	100.0

Our administrative expenses during the Track Record Period mainly comprised:

(a) staff cost, including directors' emoluments, which represented salaries and pension scheme contribution provided to our Directors, administrative and back office staff;

(b) depreciation, which mainly represented depreciation charges for our right-of-use assets (i.e. leasing office);

(c) professional fees, which mainly represented audit and related services fees;

(d) entertainment, which mainly represented expenses in relation to the relationship building with existing and potential customers as well as internal company functions;

(e) motor vehicle expenses, which represented the transportation costs incurred by our administrative staff for our Group's daily business operations;

(f) impairment of contract assets and trade receivables, which represented the loss allowance for impairment of our Group's contract assets and trade receivables; and

(g) others, which include various expenses, such as expenses for utilities, telecommunication, printing, stationary, insurance, medical and other miscellaneous expenses, etc.

Finance costs

Our finance costs during the Track Record Period mainly represented interest expenses relating to our bank loans and overdrafts and lease liabilities, and the table below sets forth a breakdown of our finance costs during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2019**	**For the five months ended 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on bank loans and overdrafts	133	144	156	64	16
Interest on lease liabilities	31	37	39	18	16
	164	181	195	82	32

For details of our interest-bearing bank and other borrowings and lease liabilities, please refer to the paragraph headed "Indebtedness" in this section.

Income tax expenses

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

The income tax expenses during the Track Record Period can be reconciled to the profit before tax as follows:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit before tax	16,815	30,127	46,380	7,807	18,629
Tax at the statutory tax rate of 16.5%	2,774	4,971	7,653	1,288	3,074
Income not subject to tax	–	–	–	–	(30)
Expenses not deductible for tax	–	–	319	–	1,245
Income tax expenses for the year/period	2,774	4,971	7,972	1,288	4,289

Our Group's income tax expenses, profit before tax and effective tax rate (calculated as income tax expenses for the year/period divided by profit before tax for the year/period) during the Track Record Period are illustrated in the table below:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income tax expenses	2,774	4,971	7,972	1,288	4,289
Profit before tax	16,815	30,127	46,380	7,807	18,629
Effective tax rate	16.5%	16.5%	17.2%	16.5%	23.0%

Our effective tax rate had remained relatively stable over the Track Record Period at approximately 16.5%, 16.5%, 17.2%, 16.5% and 23.0% for FY2017/18, FY2018/19, FY2019/20, the five months ended 31 August 2019 and the five months ended 31 August 2020, respectively. The higher effective tax rates for FY2019/20 and the five months ended 31 August 2020 were mainly due to the non-deductible **[REDACTED]** of approximately HK$**[REDACTED]** million and HK$**[REDACTED]** million that we incurred during FY2019/20 and the five months ended 31 August 2020, respectively.

As of the Latest Practicable Date, to the best knowledge of our Directors, they confirm that our Group, our Controlling Shareholders and themselves did not have any tax disputes with, or had been subject to any tax enquiries and/or investigations by the relevant tax authorities during the Track Record Period and up to the Latest Practicable Date.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2017/18 compared with FY2018/19

Revenue

Our revenue increased from approximately HK$170.2 million for FY2017/18 to approximately HK$272.9 million for FY2018/19, representing an increase of approximately 60.3% mainly due to the following:

(i) We recorded an increase in the number of projects with revenue recognised during the financial year from 17 for FY2017/18 to 21 for FY2018/19 as demonstrated in the below table:

	FY2017/18	**FY2018/19**
	No. of projects	*No. of projects*
Revenue recognised		
HK$50.0 million or above	–	1
HK$20.0 million to below HK$50.0 million	3	3
HK$10.0 million to below HK$20.0 million	4	4
HK$1.0 million to below HK$10.0 million	3	4
Below HK$1.0 million	7	9
Total	17	21

(ii) The number of project with revenue contribution over HK$50.0 million during the financial year increased from nil for FY2017/18 to one for FY2018/19, as our Group commenced foundation works for Project No. #01 (Project code corresponds to the table as disclosed in the paragraph headed "Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period" in this document) with an estimated contract sum of approximately HK$153.7 million in relation to a private residential development project of Developer I in Tin Shui Wai awarded to our Group in late FY2017/18. Given the substantial amount of foundation works performed by us for Project No. #01 during FY2018/19, Project No. #01 had contributed to our Group a revenue of approximately HK$110.2 million for the corresponding financial year which is significantly higher as compared to our largest project in terms of revenue recognised during FY2017/18, namely Project No. #05, with an estimated contract sum of approximately HK$50.1 million, had contributed revenue of approximately HK$44.6 million to our Group in FY2017/18.

(iii) We also commenced foundation works for Project No. #02 during the mid of FY2018/19 in relation to a private residential development project of Developer I in Tin Shui Wai, which contributed to our Group revenue of approximately HK$36.8 million during FY2018/19.

Cost of sales

Our cost of sales increased from approximately HK$150.7 million for FY2017/18 to approximately HK$239.7 million for FY2018/19, representing an increase of approximately 59.0%, which was slightly less than the increase in our revenue of approximately 60.3% for the corresponding financial year. The increase in our cost of sales from FY2017/18 to FY2018/19 was mainly due to our business growth which led to (i) the increase in our subcontracting fees by approximately HK$46.7 million or 84.2% for FY2018/19, given the fluctuations in our subcontracting fees are subject to the scale and nature of works as required by each respective project, which are mainly for certain ELS works such as shoring works and certain pile cap construction including steel reinforcement works and formwork erection works as discussed under the paragraph headed "Business – Our suppliers and subcontractors – Our subcontractors – Principal terms of engagement" in this document. Among the major revenue contributing projects of our Group during FY2018/19, including Project No. #01, #02, #06 and #09, out of which three projects, namely Project No. #01, #06 and #09, required a substantial amount of shoring works to be performed during the financial year, whereas the shoring works for Project No. #02 was mainly to be performed during FY2019/20. In comparison to the major revenue contributing projects of our Group during FY2017/18, only two projects, namely Project No. #05 and #07 required a substantial amount of shoring works to be performed; (ii) the increase in our materials costs by approximately HK$28.8 million or 120.8% for FY2018/19, depending on the contract terms with our customers, materials may be procured by us at our cost or provided by our customers to us at our cost or at the cost of our customers. As for Project No. #01 and #06, we would generally purchase construction materials at our Group's own costs; and (iii) the increase in our direct labour costs by approximately HK$11.9 million or 59.5% for FY2018/19, which also corresponded to the increase in our number of site workers from 33 as at 31 March 2018 to 73 as at 31 March 2019 as mentioned in the paragraph headed "Business – Employees – Number of employees" in this document. Overall, the aforesaid increase in these respective cost of sales corresponded to the substantial amount of foundation works we had performed for Project No. #01, #02, #06 and #09 during FY2018/19, which were either commenced in FY2018/19 and/or recorded a relatively larger amount of foundation works performed in FY2018/19 as compared FY2017/18.

Meanwhile, the waste disposal services expenses of our Group has remained relatively stable despite our revenue growth in FY2018/19. In general, our waste disposal services expenses is subject to the weight of sand and/or soil required to be disposed, (which was derived from our foundation works) from our construction sites to appropriate landfills. On some occasion, such sand may be transported to other large scale construction sites of land reclamation works which require significant amount of sand, such as the construction site of the Airport North Commercial District and the Airport Three Runway System Project and the waste disposal expenses incurred in relation to these construction sites was lower than that of landfills. Our Group had disposed our construction wastes at the site of Airport North Commercial District for land reclamation works and the fill collection point established at the River Trade Terminal in Tuen Mun for land reclamation works at the Airport Three Runway System. As such, certain amount of sand originally to be disposed to landfills was transported to other construction sites of land reclamation works, resulting in the decrease in our waste disposal services expenses in FY2018/19. For details of waste disposal expenses, please refer to the section headed "Business – Our suppliers – Principal terms of engagement – Suppliers of waste disposal services" in this document.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK$19.5 million for FY2017/18 to approximately HK$33.2 million for FY2018/19, representing an increase of approximately 70.6%, while our Group's overall gross profit margin remained relatively stable at approximately 11.4% for FY2017/18 and approximately 12.2% for FY2018/19. Such increase in our Group's overall gross profit from FY2017/18 to FY2018/19 was mainly attributable to the increase in our revenue as discussed above. In spite of the more-than-proportionate increase in our subcontracting fees due to the nature of subcontracting works involved during FY2018/19, our Directors had taken into account the underlying factors which contributed to the decrease in the waste disposal services expenses as discussed above in determining the tender price of our projects. Hence, these led to the relatively stable gross profit margin of our Group for FY2018/19.

Other income and gains

Our other income and gains increased from approximately HK$0.3 million for FY2017/18 to approximately HK$1.1 million for FY2018/19, mainly due to the increase in the income generated from other one-off miscellaneous works.

Administrative expenses

Our administrative expenses increased from approximately HK$2.8 million for FY2017/18 to approximately HK$4.0 million for FY2018/19, representing an increase of approximately 42.6% mainly attributable to (i) the increase in staff cost, including director's emoluments of our Group from approximately HK$1.8 million for FY2017/18 to approximately HK$2.3 million for FY2018/19 mainly due to (a) the increase in the number of our finance and administration staff during FY2018/19, (b) the increase in our Group's staff benefit and Director's emolument; and (ii) the increase in our professional fees from approximately HK$0.2 million for FY2017/18 to approximately HK$0.7 million for FY2018/19 mainly attributable to the increase in our audit fees.

Finance costs

Our Group's finance costs remained relatively stable at approximately HK$164,000 and HK$181,000 for FY2017/18 and FY2018/19, respectively, which were mainly incurred from the interest expenses arising from our bank loans and overdrafts.

Income tax expenses

Our income tax expenses increased from approximately HK$2.8 million for FY2017/18 to approximately HK$5.0 million for FY2018/19 due to the increase in revenue and gross profit as discussed above, and our effective tax rate had remained stable at approximately 16.5% for both FY2017/18 and FY2018/19 as discussed in the paragraph headed "Principal components of results of operations – Income tax expenses" in this section.

FY2018/19 compared with FY2019/20

Revenue

Our revenue increased from approximately HK$272.9 million for FY2018/19 to approximately HK$404.8 million for FY2019/20, representing an increase of approximately 48.3% mainly due to the following:

(i) We recorded an increase in the number of projects with revenue recognised during the financial year from 21 for FY2018/19 to 33 for FY2019/20 as demonstrated in the table below:

	FY2018/19	**FY2019/20**
	No. of projects	*No. of projects*
Revenue recognised		
HK$50.0 million or above	1	3
HK$20.0 million to below HK$50.0 million	3	4
HK$10.0 million to below HK$20.0 million	4	2
HK$1.0 million to below HK$10.0 million	4	15
Below HK$1.0 million	9	9
Total	21	33

(ii) The number of project with revenue contribution over HK$50.0 million during the financial year increased from one in FY2018/19 to three in FY2019/20, which, in aggregate, contributed revenue of approximately HK$110.2 million and HK$199.0 million during FY2018/19 and FY2019/20, respectively. The contract sum of these three projects with revenue contribution of over HK$50.0 million during FY2019/20, namely Project No. #02, #03 and #04 (Project No. #01 was the only project with revenue contribution of over HK$50.0 million during FY2018/19) was approximately HK$100.6 million, HK$143.1 million and HK$108.1 million, respectively. Our Directors consider that our Group possesses the capability of undertaking sizeable foundation works projects in light of (a) our Group's established reputation and track record in the foundation industry; (b) our technical know-how in performing comprehensive ELS works with various methods, including open-cut, bottom-up as well as top-down methods, which could increase the flexibility and efficiency in the planning and implementation of construction developments. According to the F&S Report, it is increasingly common for project owners and/or main contractors to require foundation works contractors to perform comprehensive ELS works using the top-down method; and (c) our growing in-house service capacity, including the increase in the number of our employee and machinery. In particular, our service quality is reflected by our admission as one of the approved subcontractors of Sanfield (being a wholly-owned subsidiary of Developer I) since 2018, and subsequently, there were five projects directly awarded to our Group by Sanfield within the Track Record Period, while a sizeable project with a contract sum of approximately HK$328.5 million was awarded to us subsequent to the Track Record Period. We believe that these factors contributed to the increase in the number and scale of projects obtained and undertaken by our Group throughout the Track Record Period. For further details, please refer to the sections headed "Business – Competitive strengths" and "Business – Projects undertaken during the Track Record Period" in this document.

Cost of sales

Our cost of sales increased from approximately HK$239.7 million for FY2018/19 to approximately HK$352.6 million for FY2019/20, representing an increase of approximately 47.1%. Such increase was generally in line with the growth of our revenue by approximately 48.3% in the corresponding financial year and this was mainly due to (i) the increase in our material costs by approximately HK$61.5 million or 116.9%, depending on the contract terms with our customers, materials may be procured by us at our cost or provided by our customers to us at our cost or at the cost of our customers. As for Project No. #02, #03 and #04, we would generally purchase construction materials at our own costs; (ii) the increase in our subcontracting fees by approximately HK$28.5 million or 27.9% for FY2019/20, and the less-than-proportionate increase in our subcontracting fees as compared to our revenue growth was mainly because a substantial amount of shoring works that we usually engaged subcontractors to perform had been completed for Project No. #02 and #04 during FY2019/20, while we had engaged subcontractors to perform certain shoring works for Project No. #03 during FY2019/20, and the remaining substantial part of shoring works are expected to be completed during FY2020/21; and (iii) as the average number of our site workers per month increased from approximately 54 in FY2018/19 to approximately 67 in FY2019/20, our direct labour costs increased by approximately HK$11.2 million or 35.2%. Overall, such fluctuation in our cost of sales was mainly attributable to the substantial amount of foundation works we had performed for Project No. #02, #03, #04 and #08.

Meanwhile, our waste disposal services expenses has increased by approximately HK$4.3 million or 10.6%, which was less than the proportional increase in our revenue of approximately 48.3% during FY2019/20 due to the increased proportion of our waste disposal at Non-Government Sites, which had a lower weighted unit cost per tonne as compared to disposing at Government Facilities in Full Cost. Please refer to the section headed "Business – Our suppliers – Principal terms of engagement – Suppliers of waste disposal services" in this document for further details.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK$33.2 million for FY2018/19 to approximately HK$52.2 million for FY2019/20, representing an increase of approximately 57.2%, while our Group's overall gross profit margin remained relatively stable at approximately 12.2% and 12.9% for FY2018/19 and FY2019/20, respectively. The increase in our Group's overall gross profit during FY2019/20 was mainly attributable to our revenue growth during the financial year as discussed above, while the fluctuations in our overall gross profit margin was mainly because (i) the less-than-proportionate increase in our subcontracting fees for FY2019/20; and (ii) the less-than-proportionate increase in our waste disposal services expenses as discussed above.

Other income and gains

Our other income and gains decreased from approximately HK$1.1 million for FY2018/19 to approximately HK$0.5 million for FY2019/20 mainly due to the decrease in the income generated from other one-off miscellaneous works.

Administrative expenses

Our administrative expenses remained relatively stable at approximately HK$4.0 million for FY2018/19 and approximately HK$4.2 million for FY2019/20.

Finance costs

Our Group's finance costs remained relatively stable at approximately HK$181,000 and HK$195,000 for FY2018/19 and FY2019/20, respectively, which were mainly incurred from the interest expenses arising from our bank loans and overdrafts.

Income tax expenses

Our income tax expenses increased from approximately HK$5.0 million for FY2018/19 to approximately HK$8.0 million for FY2019/20 due to the increase in revenue and gross profit as discussed above, while our effective tax rate increased slightly from approximately 16.5% for FY2018/19 to approximately 17.2% for FY2019/20 mainly due to the non-deductible

[REDACTED] of approximately HK$**[REDACTED]** million incurred during FY2019/20 as discussed in the paragraph headed "Principal components of results of operations – Income tax expenses" in this section.

Five months ended 31 August 2019 compared with the five months ended 31 August 2020

Revenue

Our revenue increased from approximately HK$74.9 million for the five months ended 31 August 2019 to approximately HK$221.2 million for the five months ended 31 August 2020, representing an increase of approximately 195.3% mainly due to the following:

(i) We recorded an increase in the number of projects with revenue recognised during the financial period from 22 for the five months ended 31 August 2019 to 28 for the five months ended 31 August 2020 as demonstrated in the table below:

	For the five months ended 31 August 2019	**For the five months ended 31 August 2020**
	No. of projects	*No. of projects*
Revenue recognised		
HK$50.0 million or above	–	1
HK$20.0 million to below HK$50.0 million	1	1
HK$10.0 million to below HK$20.0 million	1	4
HK$1.0 million to below HK$10.0 million	10	15
Below HK$1.0 million	10	7
Total	22	28

(ii) The number of project with revenue contribution over HK$50.0 million during the financial period increased from nil for the five months ended 31 August 2019 to one for the five months ended 31 August 2020, namely Project No. #03, which contributed approximately HK$59.2 million of revenue to our Group for the substantial amount of foundation works we had performed during the five months ended 31 August 2020 while Project No. #03 was only commenced in August 2019 and it is expected to be completed in March 2021.

(iii) The number of project with revenue contribution of over HK$10.0 million to below HK$20.0 million increased from one for the five months ended 31 August 2019 to four for the five months ended 31 August 2020, which our Group recorded approximately HK$12.7 million of revenue from Project No. #01 during the five months ended 31 August 2019 as compared to approximately HK$59.1 million of revenue derived from

Project No. #02, #04, O11 and the other project during the five months ended 31 August 2020, as we were in the final stages of foundation works for Project No. #02 and #04, and also performing the main stage of foundation works for Project No. O11 and the other project, of which Project No. O11 is expected to be completed in FY2020/21 and the other project has been completed as of the Latest Practicable Date.

Cost of sales

Our cost of sales increased from approximately HK$65.4 million for the five months ended 31 August 2019 to approximately HK$192.7 million for the five months ended 31 August 2020, representing an increase of approximately 194.8%. Such increase was generally in line with the growth of our revenue by approximately 195.3% in the corresponding financial period and this was mainly due to (i) the increase in our material costs by approximately HK$65.3 million or 730.3% based on the respective contract terms as discussed above in this section, while a substantial amount of materials was purchased at our own costs particularly for Project No. #11 and O11, given that these two projects were involved with a substantial amount of reinforcement bar fixing works; (ii) the increase in our waste disposal services expenses by approximately HK$34.1 million or 1,149.7% mainly in relation to Project No. #03, as being one of the sizable projects undertaken by our Group during the Track Record Period, our Directors have evaluated and considered that the type of sand/soil extracted from the construction site of Project No. #03 may not be suitable for use in other large scale construction site, such that a substantial amount of construction wastes from the project was transported to the appropriate landfills, resulting in an increase in the waste disposal services expenses during the five months ended 31 August 2020; and (iii) the increase in our subcontracting fees by approximately HK$18.0 million or 56.6%, and such less-than-proportionate increase in our subcontracting fees as compared to our revenue growth for the relevant financial period was mainly because there was less demand for our Group to engage subcontractors for performing shoring works during the five months ended 31 August 2020, particularly following the substantial completion of shoring works for Project No. #02 and #04, while we had engaged subcontractors to perform certain shoring works for Project No. #03.

Gross profit and gross profit margin

Our Group's overall gross profit increased from approximately HK$9.5 million for the five months ended 31 August 2019 to approximately HK$28.5 million for the five months ended 31 August 2020, representing an increase of approximately 198.9%, while our Group's overall gross profit margin has remained relatively stable at approximately 12.7% and 12.9% for the five months ended 31 August 2019 and the five months ended 31 August 2020, respectively. The increase in our Group's overall gross profit during the five months ended 31 August 2020 was mainly attributable to our revenue growth during the financial period as discussed above, while the fluctuations in our overall gross profit margin was mainly because (i) the more-than-proportionate increase in our material costs and waste disposal services expenses; and offset by (ii) the less-than-proportionate increase in our subcontracting fees as discussed above.

Other income and gains

Our other income and gains increased from approximately HK$0.2 million for the five months ended 31 August 2019 to approximately HK$1.6 million for the five months ended 31 August 2020 mainly attributable to the increase in the income generated from other one-off miscellaneous works.

Administrative expenses

Our administrative expenses increased from approximately HK$1.9 million for the five months ended 31 August 2019 to approximately HK$3.8 million for the five months ended 31 August 2020, which was mainly attributable to (i) the impairment of our Group's contract assets and trade receivables in aggregate of approximately HK$1.5 million, please refer to the paragraphs headed "Discussion on selected financial position items – Trade receivables" and "Discussion on selected financial position items – Contract assets – Impairment" in this section below for further details; and (ii) the increase in our staff cost mainly due to the hiring of our Group's financial controller since December 2019; and partly offset by (iii) the decrease in our entertainment expenses, given that the outbreak of COVID-19 since January 2020 has greatly limited the occasions for relationship building of our Group with the existing and potential customers as well as internal company functions.

Finance costs

Our Group's finance costs decreased from approximately HK$82,000 for the five months ended 31 August 2019 to approximately HK$32,000 for the five months ended 31 August 2020 mainly due to the decrease in our interest on bank loans and overdrafts following the settlement of the bank overdrafts and revolving loan in May 2020 with the release of the legal charge and guarantees as discussed in the paragraph headed "Indebtedness – Bank facilities" in this section below.

Income tax expenses

Our income tax expenses increased from approximately HK$1.3 million for the five months ended 31 August 2019 to approximately HK$4.3 million for the five months ended 31 August 2020 due to the increase in our revenue and gross profit as discussed above, while the effective tax rate of our Group increased from approximately 16.5% for the five months ended 31 August 2019 to approximately 23.0% for the five months ended 31 August 2020 mainly due to the non-deductible **[REDACTED]** of approximately HK$**[REDACTED]** million incurred during the five months ended 31 August 2020 as discussed in the paragraph headed "Principal components of results of operations – Income tax expenses" in this section.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our equity capital, bank and other borrowing and cash generated from our operations. Our primary liquidity requirements are to finance our working capital needs and fund our capital expenditures and growth of our operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the **[REDACTED]** from the **[REDACTED]** to finance a portion of our liquidity requirements.

The net cash flows used in operating activities for the five months ended 31 August 2020 of approximately HK$0.4 million was largely due to the substantial amount of work we performed in Project No. #03 for Customer A as discussed in the paragraph headed "Discussion on selected financial position items – Contract assets" in this section. Having considered (i) approximately 76.8% of our Group's contract assets arising from construction services as at 31 August 2020 had been billed and settled as at Latest Practicable Date; (ii) our Group recorded no bad debt for Customer A during the Track Record Period; and (iii) going forward, our Group will (a) continue to follow up closely with our customers in settling the respective projects' outstanding balances for the work we had completed; (b) prior to the commencement of each project, our project management team will prepare forecast on the cash inflow and cash outflow for the respective project, and negotiate with our customers in our best effort to set out the most favourable payment terms for our Group; (c) our project management team is responsible for documenting expected cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow plans for each project and submitting the cashflow plans to our finance and administration staff on a monthly basis; (d) our finance and administration staff, led by our financial controller, will be responsible for reviewing the cashflow plans for our projects and submitting the cashflow plans to our management for review; and (e) in the event that there is expected net cash outflow for a particular month, we will actively follow up with our customers for payment or plan for financing, our Directors are of the view that the Group are able to maintain our cashflow position from operations. Please refer to the sections headed "Risk factors – We recorded net cash flows used in operating activities for the five months ended 31 August 2020", "Business – Risk management and internal control systems – (iv) Liquidity risk management" in this document and the paragraph headed "Cash flows – Cash flows from operating activities" in this section for further details.

As at 31 December 2020, being the most recent practicable date for the purpose of the disclosure of our liquidity position, we had cash and cash equivalents of approximately HK$11.4 million.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flow before working capital changes	22,451	36,532	54,209	10,736	23,581
Net cash flows from/(used in) operating activities	24,087	19,733	27,242	16,644	(375)
Net cash flows used in investing activities	(24,752)	(13,290)	(15,293)	(7,383)	(3,104)
Net cash flows used in financing activities	(4,458)	(527)	(593)	(252)	(3,252)
Net (decrease)/increase in cash and cash equivalents	(5,123)	5,916	11,356	9,009	(6,731)
Cash and cash equivalents at beginning of year/period	2,903	(2,220)	3,696	3,696	15,052
Cash and cash equivalents at end of the year/period *(Note)*	(2,220)	3,696	15,052	12,705	8,321
Analysis of balances of cash and cash equivalents					
Cash and cash equivalents as stated in the combined statements of financial position	2,197	3,696	15,052	12,705	8,321
Bank overdrafts	(4,417)	–	–	–	–
Cash and cash equivalents as stated in the combined statements of cash flows	(2,220)	3,696	15,052	12,705	8,321

Note: The approximately HK$2.2 million of negative balance of cash and cash equivalents at end of FY2017/18 was mainly due to the bank overdrafts of approximately HK$4.4 million as at 31 March 2018.

Cash flows from operating activities

Our operating cash inflows is primarily derived from our revenue from the provision of foundation works services, whereas our operating cash outflows mainly includes subcontracting fees, materials costs and labour costs, as well as other working capital needs. Net cash flows from operating activities primarily consisted of profit before tax adjusted for finance costs, interest income, net gain/loss on disposal of items of property, plant and equipment, depreciation of property, plant and equipment, depreciation of right-of-use assets, impairment of contract assets and impairment of trade receivables, and the effect of changes in working capital such as changes in contract assets, trade receivables, prepayments and deposits, trade and retention payables, and accruals and other payables.

The following table sets forth a reconciliation of our profit before tax to net cash flows from/(used in) operating activities:

	FY2017/18 *HK$'000*	**FY2018/19** *HK$'000*	**FY2019/20** *HK$'000*	**For the five months ended 31 August 2019** *HK$'000*	**For the five months ended 31 August 2020** *HK$'000*
Profit before tax	16,815	30,127	46,380	7,807	18,629
Adjustments for:					
Finance costs	164	181	195	82	32
Interest income	–	–	(2)	–	–
(Gain)/loss on disposal of items of property, plant and equipment, net	–	(154)	5	–	–
Depreciation of property, plant and equipment	4,975	5,746	6,964	2,583	3,132
Depreciation of right-of-use assets	497	632	667	264	279
Impairment of trade receivables	–	–	–	–	168
Impairment of contract assets	–	–	–	–	1,341
Operating cash flows before movements in working capital	22,451	36,532	54,209	10,736	23,581
(Increase)/decrease in contract assets	2,439	(5,256)	(29,900)	(10,016)	(20,527)
(Increase)/decrease in trade receivables	3,841	(16,087)	6,579	16,242	(4,456)
Increase in prepayments and deposits	–	(143)	(1,095)	–	(3,458)
Increase/(decrease) in trade and retention payables	5,996	11,825	70	(7,837)	6,803
Increase/(decrease) in accruals and other payables	(7,452)	(3,913)	2,453	7,601	(1,235)
Cash generated from operations	27,275	22,958	32,316	16,726	708
Interest paid	(133)	(144)	(156)	(64)	(16)
Interest element of lease payments	(31)	(37)	(39)	(18)	(16)
Hong Kong profits tax paid	(3,024)	(3,044)	(4,879)	–	(1,051)
Net cash flows from/(used in) operating activities	24,087	19,733	27,242	16,644	(375)

For FY2017/18, we recorded profit before tax of approximately HK$16.8 million and net cash flows from operating activities of approximately HK$24.1 million, which was mainly resulted from the positive adjustment due to (i) the increase in trade and retention payables by approximately HK$6.0 million; (ii) the depreciation of property, plant and equipment of approximately HK$5.0 million; (iii) the decrease in trade receivables by approximately HK$3.8 million; and partly offset by the negative adjustment due to (iv) the decrease in accruals and other payables by approximately HK$7.5 million; and (v) the Hong Kong profits tax paid of approximately HK$3.0 million.

For FY2018/19, we recorded profit before tax of approximately HK$30.1 million and net cash flows from operating activities of approximately HK$19.7 million, which was mainly resulted from the negative adjustment due to (i) the increase in trade receivables by approximately HK$16.1 million and the increase in contract assets by approximately HK$5.3 million, in which the increase in our trade receivables was mainly due to the substantial amount of foundation works we had performed for certain sizeable projects, including Project No. #02 and #09, during the financial year, and we had issued the relevant billings to Customer A and B around late FY2018/19; and (ii) the Hong Kong profits tax paid of approximately HK$3.0 million partly offset by the positive adjustment due to (iii) the increase in trade and retention payables by approximately HK$11.8 million mainly due to the increase in the amount and scale of foundation works that we had engaged our subcontractors to perform around late FY2018/19 for Project No. #01; and (iv) the depreciation of property, plant and equipment of approximately HK$5.7 million.

For FY2019/20, we recorded profit before tax of approximately HK$46.4 million and net cash flows from operating activities of approximately HK$27.2 million, which was mainly resulted from the negative adjustment due to (i) the increase in contract assets by approximately HK$29.9 million, in which the increase in our contract assets was mainly due to the increase in the number of sizeable projects we performed during the financial year, notably in relation to Project No. #02, #03 and #04 as discussed under the paragraph headed "Discussion on selected financial position items – Contract assets" in this section. In particular, a substantial amount of foundation works for Project No. #02, #03 and #04 was performed by our Group near the end of FY2019/20 and had not been billed as at 31 March 2020; and (ii) the Hong Kong profits tax paid of approximately HK$4.9 million partly offset by the positive adjustment due to (iii) the depreciation of property, plant and equipment of approximately HK$7.0 million.

For the five months ended 31 August 2019, we recorded profit before tax of approximately HK$7.8 million and net cash flows from operating activities of approximately HK$16.6 million, which was mainly resulted from the positive adjustment due to (i) the decrease in trade receivables by approximately HK$16.2 million largely attributable to (a) the billed amount for the foundation works we had performed for Project No. #02 was settled by Customer A during the five months ended 31 August 2019; and (b) following the completion of Project No. #09 in April 2019, the billed amount was settled by Customer B during the financial period; (ii) the increase in accruals and other payables by approximately HK$7.6 million; (iii) the depreciation of property, plant and equipment of approximately HK$2.6 million; and partly offset by (iv) the increase in contract assets by approximately HK$10.0 million; and (v) the decrease in trade and retention payables by approximately HK$7.8 million.

For the five months ended 31 August 2020, we recorded profit before tax of approximately HK$18.6 million and net cash flows used in operating activities of approximately HK$0.4 million, which was mainly resulted from the negative adjustment due to (i) the increase in contract assets by approximately HK$20.5 million and the increase in trade receivables by approximately HK$4.5 million, particularly in relation to the substantial amount of foundation works we had performed for our Group's ongoing projects as well as certain new projects that commenced works during the five months ended 31 August 2020 as further discussed under the paragraphs headed "Discussion on selected financial position items – Contract assets" and "Discussion on selected financial position items – Trade receivables" in this section below; (ii) the Hong Kong profits tax paid of approximately HK$1.1 million; and partly offset by (iii) the increase in trade and retention payables by approximately HK$6.8 million following the increase in subcontracting services engaged and materials used in view of the increase in the number of sizeable projects undertaken by our Group; and (iv) the depreciation of property, plant and equipment of approximately HK$3.1 million.

Cash flows from investing activities

	FY2017/18	FY2018/19	FY2019/20	For the five months ended 31 August 2019	For the five months ended 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest received	–	–	2	–	–
Purchases of items of property, plant and equipment	(8,785)	(12,012)	(12,140)	(6,325)	(3,111)
Prepayment paid for acquisition of items of property, plant and equipment	–	–	(644)	–	–
Proceeds from disposal of items of property, plant and equipment	–	1,150	101	–	–
Repayment from a director	–	–	–	–	7
Advances to a director	(15,967)	(2,428)	(2,612)	(1,058)	–
Net cash flows used in investing activities	(24,752)	(13,290)	(15,293)	(7,383)	(3,104)

During the Track Record Period, our cash outflows used in investing activities referred to purchase of items of property, plant and equipment, advances to a director and prepayment paid for acquisition of items of property, plant and equipment, and our cash inflows from investing activities referred to proceeds from disposal of items of property, plant and equipment, repayment from a director and interest received.

For FY2017/18, we recorded net cash flows used in investing activities of approximately HK$24.8 million, which was primarily attributable to the cash used in advances to a director of approximately HK$16.0 million and purchases of items of property, plant and equipment of approximately HK$8.8 million.

For FY2018/19, we recorded net cash flows used in investing activities of approximately HK$13.3 million, which was primarily attributable to the cash used in purchases of items of property, plant and equipment of approximately HK$12.0 million.

For FY2019/20, we recorded net cash flows used in investing activities of approximately HK$15.3 million, which was primarily attributable to the cash used in purchases of items of property, plant and equipment of approximately HK$12.1 million.

For the five months ended 31 August 2019, we recorded net cash flows used in investing activities of approximately HK$7.4 million, which was primarily attributable to the cash used in purchases of items of property, plant and equipment of approximately HK$6.3 million.

For the five months ended 31 August 2020, we recorded net cash flows used in investing activities of approximately HK$3.1 million, which was primarily attributable to the cash used in purchases of items of property, plant and equipment.

Cash flows from financing activities

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2019**	**For the five months ended 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Repayment to a director	(3,930)	–	–	–	–
Principal portion of lease payments	(528)	(527)	(593)	(252)	(252)
Repayment of bank loan	–	–	–	–	(3,000)
Net cash flows used in financing activities	(4,458)	(527)	(593)	(252)	(3,252)

During the Track Record Period, our cash flows used in financing activities referred to the repayment to a director, repayment of bank loan and principal portion of lease payments.

For FY2017/18, we recorded net cash flows used in financing activities of approximately HK$4.5 million, which was primarily attributable to the repayment to a director of approximately HK$3.9 million.

For FY2018/19, we recorded net cash flows used in financing activities of approximately HK$0.5 million, which was primarily attributable to the repayment of the principal portion of lease payments of approximately HK$0.5 million.

For FY2019/20, we recorded net cash flows used in financing activities of approximately HK$0.6 million, which was primarily attributable to the repayment of the principal portion of lease payments of approximately HK$0.6 million.

For the five months ended 31 August 2019, we recorded net cash flows used in financing activities of approximately HK$0.3 million, which was attributable to the repayment of the principal portion of lease payments.

For the five months ended 31 August 2020, we recorded net cash flows used in financing activities of approximately HK$3.3 million, which was primarily attributable to the repayment of bank loan of approximately HK$3.0 million. For details of the repayment of the relevant bank loans, please refer to the paragraph headed "Indebtedness – Bank facilities" in this section.

Capital expenditures

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our Group incurred capital expenditures of approximately HK$8.8 million, HK$13.3 million, HK$12.1 million and HK$3.6 million, respectively, as set out below:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Plant and machinery	8,785	13,077	12,140	3,592
Motor vehicles	–	150	–	–
Office equipment	–	25	–	–
Total	8,785	13,252	12,140	3,592

Our Group's capital expenditures primarily consisted of purchase of plant and machinery, motor vehicles and office equipment for use in our business operations. Our Directors consider that continued investments in machinery and equipment are necessary in order to cope with our business development and increase our overall operational efficiency and capacity in performing our site works. As such, we plan to acquire additional machinery in the future, further information of which is disclosed in the sections headed "Business – Business strategies" and "Future plans and **[REDACTED]**" in this document, and our Group plans to finance future capital expenditures primarily through the **[REDACTED]** from the **[REDACTED]** as well as from cash flows generated from operations.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operations, bank facilities as well as our existing cash and cash equivalents and the estimated **[REDACTED]** of approximately HK$**[REDACTED]** million to be received by us from the **[REDACTED]**, assuming the **[REDACTED]** is not exercised based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** Range of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, after deducting the related expenses in relation to the **[REDACTED]**, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this document.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020	As at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets					
Contract assets	21,539	26,795	56,695	75,881	112,313
Trade receivables	889	16,976	10,397	14,685	6,800
Prepayments and deposits	43	–	1,095	4,553	4,595
Due from a director	15,967	18,395	7	–	–
Cash and cash equivalents	2,197	3,696	15,052	8,321	11,418
Total current assets	40,635	65,862	83,246	103,440	135,126
Current liabilities					
Trade and retention payables	6,930	18,755	18,825	25,628	26,927
Accruals and other payables	4,685	772	3,225	2,082	9,526
Interest-bearing bank and other borrowings	7,417	3,000	3,000	–	15,920
Lease liabilities	425	545	612	621	462
Tax payable	578	1,711	4,225	7,431	10,252
Total current liabilities	20,035	24,783	29,887	35,762	63,087
Net current assets	20,600	41,079	53,359	67,678	72,039

Our net current assets increased from approximately HK$20.6 million as at 31 March 2018 to approximately HK$41.1 million as at 31 March 2019. Such increase was mainly due to the combined effects of (i) the increase in our contract assets and trade receivables as discussed in the paragraphs headed "Discussion on selected financial position items – Contract assets" and "Discussion on selected financial position items – Trade receivables" in this section below; and partially offset by (ii) the increase in the amount due from a director; and (iii) the increase in our Group's trade and retention payables.

Our net current assets increased from approximately HK$41.1 million as at 31 March 2019 to approximately HK$53.4 million as at 31 March 2020. Such increase was mainly due to the combined effects of (i) the increase in our contract assets as discussed in the paragraph headed "Discussion on selected financial position items – Contract assets" in this section below; and (ii) the increase in our cash and cash equivalents, which corresponded to our Group's increased profit and total comprehensive income for the year; and partially offset by (iii) the decrease in the amount due from a director mainly through settlement from the dividend declared, comprising the final dividend of HK$12.0 million declared in respect of FY2018/19 and the interim dividend of HK$9.0 million declared in respect of FY2019/20; and (iv) the decrease in our trade receivables.

Our net current assets increased from approximately HK$53.4 million as at 31 March 2020 to approximately HK$67.7 million as at 31 August 2020. Such increase was mainly due to the combined effects of (i) the increase in our contract assets and trade receivables as attributable to our Group's ongoing foundation works, particularly Project No. #03 as well as certain new foundation works that were commenced during the five months ended 31 August 2020, including Project No. O01 and O11 as discussed in the paragraph headed "Discussion on selected financial position items – Contract assets" in this section below; (ii) the increase in our prepayments and deposits mainly due to the prepayments in relation to the **[REDACTED]**; and partially offset by (iii) the decrease in our cash and cash equivalents; (iv) the increase in our trade and retention payables mainly due to the increase in subcontracting services engaged and materials used in view of the increase in the number of sizeable projects undertaken by our Group; and (v) the increase in our tax payable.

As at 31 December 2020, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately HK$72.0 million, which was higher than our net current assets as at 31 August 2020 mainly due to (i) the increase in our contract assets by approximately HK$36.4 million; and partially offset by (ii) the increase in our Group's interest-bearing bank and other borrowings by approximately HK$15.9 million as discussed under the paragraph headed "Indebtedness – Bank facilities" in this section below.

DISCUSSION ON SELECTED FINANCIAL POSITION ITEMS

Trade receivables

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	889	16,976	10,397	14,853
Impairment	–	–	–	(168)
	889	16,976	10,397	14,685

Our trade receivables increased from approximately HK$0.9 million as at 31 March 2018 to approximately HK$17.0 million as at 31 March 2019 mainly due to (i) Project No. #09, which had a total estimated contract sum of approximately HK$38.4 million in relation to a private commercial development in Quarry Bay, and a substantial amount of foundation works for the project was performed by our Group in around late FY2018/19; and (ii) the increased number of sizeable projects we undertook, particularly Project No. #02. Subsequently, our trade receivables decreased from approximately HK$17.0 million as at 31 March 2019 to approximately HK$10.4 million as at 31 March 2020, given a substantial amount of foundation works for Project No. #02, #03 and #04 was performed by our Group near the end of FY2019/20 and had not been billed as at 31 March 2020 as discussed in the paragraph headed "Discussion on selected financial position items – Contract assets" in this section below. Thereafter, our Group's trade receivables increased from approximately HK$10.4 million as at 31 March 2020 to approximately HK$14.9 million as at 31 August 2020 mainly due to the substantial amount of foundation works our Group had performed for Project No. #03, O13 and O14 during the five months ended 31 August 2020 but had not been settled as at 31 August 2020.

As at 31 March 2018, 31 March 2019, 31 August 2019 and 31 March 2020, the loss allowance of our Group's trade receivables was assessed to be minimal. As at 31 August 2020, our Group recorded an impairment of trade receivables of approximately HK$0.2 million. Please refer to the below about the credit risk exposure of our Group's trade receivables based on a provision matrix:

Expected credit loss rate	1.13%
Gross carrying amount *(HK$'000)*	14,853
Expected credit losses *(HK$'000)*	168

Concentration

As at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, approximately 100%, 93%, 69% and 100% of our trade receivables were due from our five largest customers, respectively. For further information regarding our customer concentration risk and our Directors' view as to the sustainability of our business model in view of our customer concentration, please refer to the section headed "Business – Our customers – Customer concentration" in this document.

Trade receivables turnover days

The following table sets forth our trade receivables turnover days during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2020**
Trade receivables turnover days *(Note 1)*	16.0 days	11.9 days	12.3 days	8.7 days
Trade receivables turnover days including contract assets *(Note 2)*	39.1 days	44.3 days	50.0 days	54.5 days

Notes:

1. Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 153 days for the five months ended 31 August).

2. Trade receivables turnover days including contract assets is calculated based on the average of the beginning and ending balances of trade receivables and contract assets divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 153 days for the five months ended 31 August).

The credit period that we granted to our customers generally ranged from 14 to 60 days. Our trade receivables turnover days decreased from approximately 16.0 days for FY2017/18 to approximately 11.9 days for FY2018/19, and subsequently increased slightly to approximately 12.3 days for FY2019/20 while it decreased to approximately 8.7 days for the five months ended 31 August 2020, which was within the credit period granted to our customers.

Our Group's trade receivables turnover days including contract assets was approximately 39.1 days, 44.3 days, 50.0 days and 54.5 days for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020. The general increase in our trade receivables turnover days including contract assets over the Track Record Period was mainly attributable to (i) the increase in the contract assets arising from construction services driven by the increased number of sizeable projects undertaken by our Group over the Track Record Period, but the substantial foundation works that had been performed were not billed as at the end of the financial year/period; and (ii) the increase in the amount of retention receivables that are expected to be recovered or settled in more than one year due to the accumulative retention receivables of certain sizeable projects undertaken by our Group. For further details of our Group's contract assets, please refer to the paragraph headed "Discussion on selected financial position items – Contract assets" in this section below.

Trade receivables ageing analysis and subsequent settlement

The following table sets forth an ageing analysis of trade receivables based on progress payment certificate dates:

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	–	15,507	7,223	6,852
1 to 2 months	889	1,469	3,174	7,833
	889	16,976	10,397	14,685

As at the Latest Practicable Date, all of our trade receivables as at 31 August 2020 had been settled.

Prepayments and deposits

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	–	–	1,739	4,716
Deposits	43	186	186	186
	43	186	1,925	4,902
Less: Non-current portion	–	(186)	(830)	(349)
	43	–	1,095	4,553

Our Group's prepayments mainly represent the prepayments for **[REDACTED]** and purchase of machinery, which was nil, nil, approximately HK$1.7 million and HK$4.7 million as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively.

Our Group's deposits mainly represents rental deposits and utility deposits which was approximately HK$43,000, HK$186,000, HK$186,000 and HK$186,000 as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively.

Due from a director

Amount due from a director mainly represented the advance to Mr. Yip for his personal and family use of approximately HK$16.0 million, HK$18.4 million, HK$7,000 and nil as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively. The amount was unsecured, interest-free repayable on demand and of non-trade nature. The amount of approximately HK$7,000 as at 31 March 2020 had been settled in June 2020.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If our Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Furthermore, contract assets consist of our Group's rights to consideration for works completed but unbilled amounts resulting from construction contracts. The contract assets are transferred to trade receivables when the rights become unconditional which was generally one to three months. During the Track Record Period, the average time for our Group's customers to certify our work performed was approximately three months. According to the F&S Report, while at the final stage of a foundation project, it is not uncommon for the customer in the foundation works industry to take a longer period of time (i.e. ranged from 6 to 12 months) to proceed with the final review and approval for the relevant work done of the entire project before issuing the relevant completion certificate. Therefore, on such occasion, the certification process of our projects become longer than the average time.

The following table sets forth the breakdown of our contract assets as at the dates indicated:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets arising from construction services	7,399	2,320	17,559	31,688
Retention receivables	14,140	24,475	39,136	45,534
Impairment	–	–	–	(1,341)
	21,539	26,795	56,695	75,881

Our contract assets arising from construction services decreased from approximately HK$7.4 million as at 31 March 2018 to approximately HK$2.3 million as at 31 March 2019, as we have billed most of our work done during FY2018/19 which was evidenced by the fact that our trade receivables increased from approximately HK$0.9 million as at 31 March 2018 to approximately HK$17.0 million as at 31 March 2019. Our contract assets arising from construction services subsequently increased to approximately HK$17.6 million as at 31 March 2020 mainly attributable to the increase in number of sizeable projects performed by our Group during FY2019/20, particularly in relation to Project No. #02, #03 and #04, for which our Group had performed substantial amount of foundation works near the end of FY2019/20 but that had not been billed as at 31 March 2020. Thereafter, our contract assets arising from construction services then increased from approximately HK$17.6 million as at 31 March 2020 to approximately HK$31.7 million as at 31 August 2020 mainly due to (i) the substantial amount of foundation works performed by our Group for Project No. #03 during the five months ended 31 August 2020 which had not been billed as at 31 August 2020 resulting in the increase in our Group's contract assets; and (ii) we have commenced foundation works for certain new projects during the five months ended 31 August 2020, including Project No. O01 and O11, while our Group had not billed for these performed foundation works as at 31 August 2020.

The following table sets forth the expected timing of recovery or settlement for contract assets arising from construction services as at the dates indicated:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	7,399	2,320	17,559	31,688

As at the Latest Practicable Date, approximately HK$24.3 million or 76.8% of our contract assets arising from construction services as at 31 August 2020 had been billed and settled.

Retention receivables

When undertaking contract works, our customers may, depending on the contract terms, hold up a certain percentage of each payment made to us as retention monies, which are normally up to 10% of the value of the work done and subject to a cap of up to 10% of the total contract sum. Generally they are released (i) upon completion of our works to the satisfaction of the main contractor or project owner; or (ii) pursuant to the terms of the main contracts on back-to-back basis. In some of our projects, half of the retention monies are released upon the completion on our parts of works and the remaining half are generally released upon six months following such completion.

Our retention receivables increased from approximately HK$14.1 million as at 31 March 2018 to approximately HK$24.5 million as at 31 March 2019, and increased further to approximately HK$39.1 million as at 31 March 2020 and approximately HK$45.5 million as at 31 August 2020. Such trend of increase in our retention receivables during the Track Record Period corresponded to (i) our growth in business as reflected from the increase in our revenue over the Track Record Period; and (ii) the increase in the number of sizeable projects with relatively larger contract sums which generally required a longer time to complete, resulting in the release of retention monies at a later date.

In particular, the retention receivables that are expected to be recovered or settled in more than one year increased from approximately HK$9.4 million as at 31 March 2018 to approximately HK$21.3 million as at 31 March 2019 mainly due to the foundation works we had performed for Project No. #01 and #02 during FY2018/19. Subsequently, such retention receivables increased further to approximately HK$31.7 million as at 31 March 2020 mainly due to (i) the accumulative retention receivables of Project No. #01 and #02 for the foundation works we had performed during FY2019/20 and our executive Directors expect that the retention receivables from these two projects are to be settled by Customer A in FY2021/22; and (ii) the foundation works we had performed for Project No. #03, which was commenced during FY2019/20 and is expected to be completed in March 2021. Thereafter, the retention receivables that are expected to be recovered or settled in more than one year further increased from approximately HK$31.7 million as at 31 March 2020 to approximately HK$39.1 million as at 31 August 2020 mainly due to the accumulative retention receivables of Project No. #03 and #11, in which Project No. #11 is expected to be completed in January 2021.

The following table sets forth the expected timing of recovery or settlement for our retention receivables as at the dates indicated:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	4,787	3,200	7,419	6,461
Below one and a half year and more than one year	3,547	6,409	23,435	23,419
Below two years and more than one and a half year	8	958	8,282	15,414
More than two years	5,798	13,908	–	240
	14,140	24,475	39,136	45,534

The following table sets forth the breakdown of retention receivables that are expected to be recovered or settled in more than one year as at the dates indicated:

Project No.	**Customer**	**Date of completion of our works**	**As at 31 March 2018**	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
#01	Customer A	December 2020	2,094	4,986	6,356	6,445
#02	Customer A	December 2020	–	5,794	7,831	5,291
#03	Customer A	March 2021	–	–	5,430	8,570
#04	Sunnic Engineering Limited	March 2021	–	–	2,706	2,700
#06	Customer A	August 2018	1,466	–	–	–
#08	Customer A	March 2021	–	–	1,282	1,137
#09	Customer B	April 2019	–	1,535	–	–
#10	Customer A	April 2018	1,002	1,002	–	–
#11	Customer B	January 2021	–	–	1,383	3,406
#12	Customer B	January 2021	–	–	1,183	1,621
Other projects			4,791	7,958	5,546	9,903
			9,353	21,275	31,717	39,073

As at the Latest Practicable Date, approximately HK$7.2 million or 15.8% of our retention receivables as at 31 August 2020 had been settled.

Impairment

Our Group recorded an impairment of contract assets of approximately HK$1.3 million as at 31 August 2020. An impairment analysis is performed by our Group at each reporting date using a probability of default model to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on historical data adjusted by forward looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2019, the expected credit loss rate for the Group's contract assets was considered minimal.

Please refer to the below about the credit risk exposure of our Group's contract assets as at 31 August 2020:

Expected credit loss rate	1.74%
Gross carrying amount *(HK$'000)*	77,222
Expected credit losses *(HK$'000)*	1,341

Trade and retention payables

Our trade and retention payables mainly comprised payables to subcontractors and construction material suppliers.

Our trade and retention payables increased from approximately HK$6.9 million as at 31 March 2018 to approximately HK$18.8 million as at 31 March 2019 and 31 March 2020, respectively, and it increased further to approximately HK$25.6 million as at 31 August 2020. Such increase in our trade and retention payables over the Track Record Period was mainly due to the increase in subcontracting services engaged and materials used in view of the increase in the number of sizeable projects undertaken by our Group as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section above. The table below sets forth a breakdown of our trade and retention payables:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	6,084	17,463	16,060	21,693
Retention payables	846	1,292	2,765	3,935
	6,930	18,755	18,825	25,628

Trade payables turnover days

The following table sets forth our trade payables turnover days during the Track Record Period:

	FY2017/18	**FY2018/19**	**FY2019/20**	**For the five months ended 31 August 2020**
Trade payables turnover days *(Note)*	13.5 days	17.9 days	17.4 days	15.0 days

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by total cost of sales incurred during the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 153 days for the five months ended 31 August).

Our suppliers and subcontractors usually grant us a credit period of 14 to 60 days. Our trade payables turnover days increased from approximately 13.5 days for FY2017/18 to approximately 17.9 days for FY2018/19, and remained relatively stable at approximately 17.4 days for FY2019/20 while it then decreased to approximately 15.0 days for the five months ended 31 August 2020, which was primarily because (i) we expedited the process of settling our trade payables in order to enhance business relationship with various suppliers; and (ii) the different amounts of works done and billed by our subcontractors as well as different amounts of materials purchased by us from our material suppliers near the end of each financial year/period.

Trade payables ageing analysis and subsequent settlement

The following table sets forth the ageing analysis of the trade payables based on the invoice date as at the dates indicated:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	6,084	17,463	16,060	21,693
	6,084	17,463	16,060	21,693

As at the Latest Practicable Date, approximately HK$19.6 million or 90.3% of our trade payables as at 31 August 2020 had been settled.

Retention payables

Retention payables arising from our Group's construction works and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract works by the subcontractors. We recorded retention payables of approximately HK$0.8 million, HK$1.3 million, HK$2.8 million and HK$3.9 million as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively. Such increase in our retention payables was mainly due to our business growth during the Track Record Period.

Accruals and other payables

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	222	756	3,049	1,934
Contract liabilities	4,463	16	176	56
Provision for reinstatement	–	92	92	92
	4,685	864	3,317	2,082
Less: Non-current portion	–	(92)	(92)	–
Current portion	4,685	772	3,225	2,082

Accruals

Our accruals mainly comprised accruals for salaries, accruals for audit fee and accruals for expenses in relation to the **[REDACTED]**, which increased from approximately HK$0.2 million as at 31 March 2018 to approximately HK$0.7 million as at 31 March 2019, and it further increased to approximately HK$3.0 million and HK$1.9 million as at 31 March 2020 and 31 August 2020, respectively, mainly due to the accruals for expenses in relation to the **[REDACTED]**.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before our Group transfers the related goods or services. Contract liabilities are recognised as revenue when our Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Our Group's contract liabilities decreased from approximately HK$4.5 million as at 31 March 2018 to approximately HK$16,000, HK$176,000 and HK$56,000 as at 31 March 2019, 31 March 2020 and 31 August 2020, respectively. The contract liabilities generally arise from the excess portion of certified revenue over the recognised revenue as at the end of the financial year/period and the balance will be recognised as revenue during the subsequent financial year/period.

INDEBTEDNESS

As at 31 December 2020, being the latest practicable date for the purpose of the indebtedness statement, and save as disclosed under this paragraph headed "Indebtedness", we did not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, hire purchase commitments, contingent liabilities or guarantees.

The following table sets forth our Group's indebtedness as at the respective dates indicated. Our Directors confirm that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirm that there has not been any material change in our indebtedness or contingent liabilities since 31 December 2020 and up to the date of this document. Saved as the aforementioned, our Directors confirm that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020	As at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Interest-bearing bank and other borrowings	7,417	3,000	3,000	–	15,920
Lease liabilities	425	545	612	621	462
Non-current liabilities					
Interest-bearing bank and other borrowings	–	–	–	–	3,115
Lease liabilities	361	752	524	263	217
	8,203	4,297	4,136	884	19,714

Interest-bearing bank and other borrowings

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group had interest-bearing bank and other borrowings as follows:

	As at 31 March 2018	As at 31 March 2019	As at 31 March 2020	As at 31 August 2020	As at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loan – secured	3,000	3,000	3,000	–	19,035
Bank overdrafts – secured	4,417	–	–	–	–
	7,417	3,000	3,000	–	19,035

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group's interest-bearing bank and other borrowings were all repayable on demand.

The effective interest rates per annum of our bank loans repayable on demand clause ranged between 2.5% and 5.2% during the Track Record Period.

Bank facilities

Our Group had available bank facilities amounting to HK$7.5 million (including (a) bank overdrafts to the extent of approximately HK$4.5 million; and (b) revolving loan to the extent of approximately HK$3.0 million) as at 31 March 2018, 31 March 2019 and 31 March 2020, respectively, which were secured by (i) the legal charge over properties provided by Fortune Dragon Investment (HK) Limited, which was held by Mr. Yip and Mr. Yip Siu Lung, the nephew of Mr. Yip as at 31 March 2018, and subsequently held by Mr. Yip Siu Lung and Ms. Yip Wing Wai, the daughter of Mr. Yip as at 31 March 2019 and 31 March 2020; and (ii) the joint and several personal guarantees given by Mr. Yip, Ms. Kwan and Mr. Yip Siu Lung. The aforementioned bank overdrafts and revolving loan have been settled in May 2020 with the release of the legal charge and guarantees. Thereafter, our Group was granted with a new bank facilities amounting to approximately HK$21.8 million in August 2020, comprising HK$18.0 million of bank loans for working capital purpose and approximately US$484,000 of life insurance loan. The bank facilities is secured by (i) a property as owned by Ms. Kwan personally; and (ii) the joint and several personal guarantees given by Mr. Yip and Ms. Kwan, while the aforementioned legal charge over a property owned by Ms. Kwan the and joint and several personal guarantees are expected to be released and replaced by our Company's corporate guarantee upon **[REDACTED]**. For details of our Group's financial independence, please refer to the section headed "Relationship with Controlling Shareholders – Independence from our Controlling Shareholders – Financial independence" in the document.

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group recorded utilised bank facilities of approximately HK$7.4 million, HK$3.0 million, HK$3.0 million, nil and HK$19.0 million, respectively, and we recorded unutilised bank facilities of approximately HK$0.1 million, HK$4.5 million, HK$4.5 million, HK$21.8 million and HK$2.8 million, respectively.

Throughout the Track Record Period and up to the Latest Practicable Date, our Group had available business credit card facilities amounting to HK$100,000 granted by a bank to Mr. Yip and Ms. Kwan.

Lease liabilities

Our Group recorded total lease liabilities of approximately HK$0.8 million, HK$1.3 million, HK$1.1 million, HK$0.9 million and HK$0.7 million as at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, respectively, and such amount mainly represented the liabilities arising from our leasing of office premises and various motor vehicles, which generally have lease terms between two and four years. Certain of our lease liabilities were secured by a personal guarantee provided by Mr. Yip amounting to HK$400,000 as at 31 March 2018 and 31 March 2019 and the personal guarantee was subsequently released during FY2019/20.

Capital commitments

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group incurred capital commitments of nil, nil, approximately HK$5.8 million, HK$3.1 million and nil, respectively, as set out below:

	As at 31 March 2018	**As at 31 March 2019**	**As at 31 March 2020**	**As at 31 August 2020**	**As at 31 December 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not provided for:					
Property, plant and machinery	–	–	5,796	3,141	–

The capital commitments of approximately HK$5.8 million as at 31 March 2020, approximately HK$3.1 million as at 31 August 2020 were mainly in relation to the outstanding payment for the machinery our Group had purchased during FY2019/20, which were referring to the deposits for acquisition of items of property, plant and equipment of approximately HK$0.6 million we had paid for during FY2019/20.

Contingent liabilities

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group provided a corporate guarantee in relation to a bank facility granted to Fortune Dragon Investment (HK) Limited, a company which was held by Mr. Yip and Mr. Yip Siu Lung, the nephew of Mr. Yip as at 31 March 2018, and subsequently held by Mr. Yip Siu Lung and Ms. Yip Wing Wai, the daughter of Mr. Yip as at 31 March 2019 and 31 March 2020, and approximately HK$8.3 million, HK$7.9 million, HK$7.6 million, nil and nil of the bank facility was utilised by Fortune Dragon Investment (HK) Limited, respectively. Our Group did not hold any collateral or other credit enhancements over the guarantees, while such corporate guarantee has been released from our Group in June 2020.

As at 31 March 2018, 31 March 2019, 31 March 2020, 31 August 2020 and 31 December 2020, our Group provided a corporate guarantee in relation to a bank facility granted to Ms. Yip Wing Wai, the daughter of Mr. Yip, and approximately HK$3.8 million, HK$3.7 million, HK$3.6 million, nil and nil of the bank facility were utilised by Ms. Yip Wing Wai, respectively. Our Group did not hold any collateral or other credit enhancements over the guarantees, while such corporate guarantee has been released from our Group in June 2020.

For further details, please refer to notes 29 and 30 of the Accountants' Report as set out in Appendix I to this document.

Off-balance sheet arrangements and commitments

Our Directors confirm that we did not have any off-balance sheet arrangements or commitments as at the Latest Practicable Date.

KEY FINANCIAL RATIOS

	FY2017/18 or as at 31 March 2018	FY2018/19 or as at 31 March 2019	FY2019/20 or as at 31 March 2020	For the five months ended 31 August 2020 or as at 31 August 2020
Revenue growth	N/A	60.3%	48.3%	195.3%
Net profit growth	N/A	79.2%	52.7%	120.0%
Gross profit margin	11.4%	12.2%	12.9%	12.9%
Net profit margin	8.2%	9.2%	9.5%	6.5%
Return on equity	36.7%	39.7%	47.5%	15.1%
Return on total assets	23.0%	27.3%	33.4%	10.6%
Current ratio	2.0 times	2.7 times	2.8 times	2.9 times
Quick ratio	2.0 times	2.7 times	2.8 times	2.9 times
Inventories turnover days	N/A	N/A	N/A	N/A
Trade receivables turnover days	16.0 days	11.9 days	12.3 days	8.7 days
Trade payables turnover days	13.5 days	17.9 days	17.4 days	15.0 days
Gearing ratio	21.4%	6.8%	5.1%	0.9%
Net debt to equity ratio	15.7%	0.9%	Net cash	Net cash
Interest coverage	103.5 times	167.4 times	238.8 times	583.2 times

Revenue growth

Revenue growth is calculated as the difference between revenue of the respective year/period and revenue of the previous corresponding year/period, then divided by revenue of the previous corresponding year/period.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuations in our revenue.

Net profit growth

Net profit growth is calculated as the difference between profit of the respective year/period and profit of the previous corresponding year/period, then divided by profit of the previous corresponding year/period.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuations in our net profit.

Gross profit margin

Gross profit margin is calculated as gross profit divided by total revenue of the respective year/period.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuations in our gross profit margin.

Net profit margin

Net profit margin is calculated as profit and total comprehensive income for the year/period divided by total revenue of the respective year/period.

Our net profit margin was approximately 8.2%, 9.2%, 9.5%, 8.7% and 6.5% for FY2017/18, FY2018/19, FY2019/20, the five months ended 31 August 2019 and the five months ended 31 August 2020, respectively, which largely corresponded to the fluctuations in our gross profit margin as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section. The net profit margin for FY2019/20 and the five months ended 31 August 2020 after excluding the one-off **[REDACTED]** of approximately HK$**[REDACTED]** million and HK$**[REDACTED]** million would be approximately 10.0% and 9.9%, respectively.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year/period divided by the ending total equity as at the respective reporting dates.

Our return on equity increased from approximately 36.7% for FY2017/18 to approximately 39.7% for FY2018/19, and increased further to approximately 47.5% for FY2019/20, which was mainly due to (i) the fluctuations in our Group's net profit margin as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section; and (ii) the decrease in our amount due from a director from approximately HK$18.4 million as at 31 March 2019 to approximately HK$7,000 as at 31 March 2020 as discussed in the paragraph headed "Net current assets" in this section. We incurred one-off **[REDACTED]** of approximately HK$**[REDACTED]** million during the financial year. By excluding the one-off **[REDACTED]** of approximately HK$**[REDACTED]** million, our return on equity would be approximately 49.9%.

Our return on equity increased from approximately 9.3% for the five months ended 31 August 2019 to approximately 15.1% for the five months ended 31 August 2020 mainly due to the increase in our Group's profitability during the financial period as explained earlier. By excluding the one-off **[REDACTED]** of approximately HK$**[REDACTED]** million, our return on equity would be approximately 23.1%.

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year/period divided by the ending total assets as at the respective reporting dates.

Our return on total assets increased from approximately 23.0% for FY2017/18 to approximately 27.3% for FY2018/19 and approximately 33.4% for FY2019/20 which was mainly attributable to the fluctuations in our Group's net profit margin as discussed in the paragraph headed "Period-to-period comparison of results of operations" in this section. By excluding the one-off **[REDACTED]** of approximately HK$**[REDACTED]** million, our return on total assets would be approximately 35.1%.

Our return on total assets increased from approximately 6.6% for the five months ended 31 August 2019 to approximately 10.6% for the five months ended 31 August 2020 mainly due to the reason similar to those for the increase in our return on equity during the financial period as discussed above. By excluding the one-off **[REDACTED]** of approximately HK$**[REDACTED]** million, our return on total assets would be approximately 10.3%.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio remained broadly stable at approximately 2.0 times, 2.7 times, 2.8 times and 2.9 times as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.

The quick ratio is the same as the current ratio since our Group is a foundation services contractor and does not maintain any inventory.

Inventories turnover days

Due to the nature of our business model, we did not maintain any inventories during the Track Record Period. As such, analysis of inventories turnover days is not applicable.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 153 days for the five months ended 31 August).

Please refer to the paragraph headed "Net current assets – Trade receivables" in this section for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by total cost of sales for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year or 153 days for the five months ended 31 August).

Please refer to the paragraph headed "Net current assets – Trade and retention payables" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including interest-bearing bank and other borrowings and lease liabilities) divided by the total equity as at the respective reporting dates.

Our gearing ratio was approximately 21.4%, 6.8%, 5.1% and 0.9% as at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, respectively. The fluctuations in our gearing ratio during the Track Record Period was mainly due to our decreasing interest-bearing bank and other borrowings as well as increasing equity base.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, including interest-bearing bank and other borrowings and lease liabilities, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

Our net debt to equity ratio was approximately 15.7% and 0.9% as at 31 March 2018 and 31 March 2019, respectively, while we were at a net cash position as at 31 March 2020 and 31 August 2020. The fluctuations in our net debt to equity ratio during the Track Record Period was mainly due to our decreasing bank and other borrowings as well as increasing equity base and cash level over the Track Record Period, which also corresponded to our Group's liquidity risk management as discussed under the section headed "Business – Risk management and internal control systems – (v) Liquidity risk management" in this document.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years/period.

Our interest coverage was approximately 103.5 times, 167.4 times, 238.8 times and 583.2 times for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. As our finance costs remained broadly stable over the Track Record Period, the fluctuation in our interest coverage was mainly in line with the changes in our net profit before interest and tax.

FINANCIAL RISK AND CAPITAL MANAGEMENT

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to the section headed "Business – Risk management and internal control systems" and note 34 of the Accountants' Report as set out in Appendix I to this document.

We manage our capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Our overall strategy remains unchanged during the Track Record Period.

UNAUDITED [REDACTED] ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited **[REDACTED]** adjusted combined net tangible assets, which was prepared to illustrate the effect of the **[REDACTED]** on the audited combined net tangible assets of our Group attributable to owners of our Company as at 31 August 2020 as if the **[REDACTED]** had taken place on 31 August 2020, was approximately HK$**[REDACTED]** per Share and HK$**[REDACTED]** per Share, respectively, based on the indicative **[REDACTED]** Range of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**. Please refer to Appendix II to this document for the bases and assumptions in calculating the unaudited **[REDACTED]** adjusted combined net tangible assets figure.

[REDACTED]

Our Directors estimate that the total amount of expenses in relation to the **[REDACTED]** is approximately HK$**[REDACTED]** million. Based on an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** (being the mid-point of the indicative **[REDACTED]** range of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**), the gross **[REDACTED]** from the **[REDACTED]** are expected to be approximately HK$**[REDACTED]** million. The estimated expenses in relation to the **[REDACTED]** represents approximately **[REDACTED]**% of the gross **[REDACTED]** from the **[REDACTED]**. Out of the amount of approximately HK$**[REDACTED]** million, approximately HK$**[REDACTED]** million is directly attributable to the issue of the **[REDACTED]** and is expected to be accounted for as a deduction from equity upon **[REDACTED]**. The remaining amount of approximately HK$**[REDACTED]** million, which cannot be so deducted, shall be charged to profit or loss and other comprehensive income, approximately HK$**[REDACTED]** million and HK$**[REDACTED]** million have been charged during FY2019/20 and the five months ended 31 August 2020, respectively, while approximately HK$**[REDACTED]** million is expected to be incurred for the remaining months of FY2020/21. Expenses in relation to the **[REDACTED]** are non-recurring in nature. Our Group's financial performance and results of operations for FY2020/21 will be adversely affected by the estimated expenses in relation to the **[REDACTED]**.

DIVIDEND

We had declared dividends of nil, approximately HK$12.0 million, HK$9.0 million and nil in respect of FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively. All such relevant dividends had been fully settled through the current accounts with our Directors in FY2019/20.

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

DISTRIBUTABLE RESERVES

Our Company was incorporated on 20 May 2020. As at 31 March 2018, 31 March 2019, 31 March 2020 and 31 August 2020, our Company had no reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 30 to the Accountants' Report as set out in Appendix I to this document.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the **[REDACTED]**, up to the date of this document, there has been no material adverse change in our financial or trading position or prospect since 31 August 2020, and there had been no events since 31 August 2020 which would materially affect the information shown in our combined financial statements included in the Accountants' Report set out in Appendix I to this document.

BUSINESS OBJECTIVES AND STRATEGIES

Our Group will endeavor to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed "Business – Business strategies" in this document. Our Group's actual course of business may vary from the business objectives set out in this document. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

Going forward, our executive Directors believe that there will be sufficient market demand for foundation works to support our expansion based on the following reasons:

(I) Leveraging our market position and continuous growth in our backlog projects

According to the F&S Report, the foundation works subcontracting industry is fragmented. As at 21 May 2020, there were 373 foundation and piling subcontractors in Hong Kong according to publicly available information from the Construction Industry Council. As provided by the F&S Report, the top five foundation works subcontractors in Hong Kong in 2019 accounted for approximately 1.6% to 2.1% market share of the foundation industry. Our Group was ranked as the fourth largest (in terms of revenue) foundation works subcontractor in Hong Kong in 2019, and accounted for approximately 1.7% market share of the foundation industry[*(Note)*]. In light of the fragmented nature of the foundation industry, our executive Directors consider that our existing market share and ranking is a recognition of our competitive edges over other market players with smaller scale of operations or shorter track record. This, in turn, has given us broader exposure to sizeable projects as established main contractors are generally more inclined to engage those foundation subcontractors with larger scale of operations, higher industry ranking and better reputation.

Note: The ranking is computed based on public information and does not include foundation works subcontractors that were not listed on the Stock Exchange due to lack of public information.

Leveraging (i) our competitive strengths set out in the paragraph headed "Business – Competitive strengths" in this document; (ii) the service capacity of our machinery fleet and workforce; (iii) our capability and know-how to perform comprehensive ELS works with various methods; (iv) our proven track record and expertise in providing foundation services; and (v) our business relationship with some of the key industry players, our Group had achieved considerable business growth (in terms of revenue and gross profit) during the Track Record Period. Our revenue increased at a CAGR of approximately 54.2% from approximately HK$170.2 million for FY2017/18 to approximately HK$404.8 million for FY2019/20, while our gross profit increased at a CAGR of approximately 63.7% from approximately HK$19.5 million for FY2017/18 to approximately HK$52.2 million for FY2019/20. Our business performance had significantly outperformed the industry growth trend as the gross value of foundation works in Hong Kong only increased at a CAGR of approximately 9.6% form approximately HK$19.9 billion in 2017 to approximately HK$23.9 billion in 2019. Going forward, we anticipate that our business growth will be underpinned by our backlog projects and other potential projects. This is supported by the fact that the total revenue attributable to our backlog projects yet to be recognised as at the Latest Practicable Date is approximately HK$468.1 million, which is significantly higher than the corresponding value of our backlog projects during the Track Record Period (i.e. 31 March 2018: HK$249.9 million, 31 March 2019: HK$263.5 million and 31 March 2020: HK$288.7 million).

During the Track Record Period, our Group experienced an increase in demand for our foundation works as evidenced by the growing number of tender invitations received by us from both potential and existing customers. Upon receipt of tender invitations from our customers, our executive Directors would generally take into consideration, amongst other factors, our available human and financial resources as well as machinery to determine whether we should proceed with the preparation of tender. Along with the expansion in our manpower resources and number of machinery during the Track Record Period, our Group had adopted a proactive approach in tender submission to capture more potential business opportunities in the foundation industry, resulting in a significant increase in the number of tenders submitted by us during the Track Record Period. The number of tenders submitted by us increased from 35 for FY2017/18 to 57 for FY2018/19 and further increased to 102 for FY2019/20. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, our tender success rate was approximately 17.1%, 19.3%, 14.7% and 14.5% respectively. As at the Latest Practicable Date, our Group had a total of 57 submitted tenders with an aggregate estimated tender amount of approximately HK$1.3 billion, that were still undergoing tender selection process and pending tender results.

Besides, during the Track Record Period, our Group had from time to time received invitations for tender when our available resources were occupied by other projects on hand. Nonetheless, so long as we can cater to the work schedule of our customers and our available resources allow, it was our strategy to respond to our customers' invitations by submitting tenders in order to maintain market presence in the foundation industry.

Taking into account (i) the forecasted growth in foundation industry in Hong Kong as supported by the F&S Report; (ii) our established market position in the foundation industry and the continuous growth in our backlog projects; (iii) our ability to significantly outperform the industry growth trend (in terms of revenue) during the Track Record Period; (iv) our ability to maintain our tendering performance at a satisfactory level along with our proactive tendering strategy; and (v) our existing resources are expected to be fully occupied due to the significant increase in value of our backlog projects subsequent to the Track Record Period, our executive Directors consider that it is currently the appropriate timing for us to expand our service capacity by increasing our available resources, including manpower, machinery and working capital, which will allow us to tender for additional and sizeable projects and further expand our market share in the foundation industry.

(II) Increasing opportunities from main contractors being group members of leading private property developers in Hong Kong

We have an established track record in providing foundation works services for various residential and commercial developments initiated by some of the leading private property developers in Hong Kong, such as Developer I, Developer C and Developer D. For further details on the background of these developers, please refer to the paragraph headed "Business – Our customers – Further information on our top customers" in this document. In particular, according to the F&S Report, Developer I ranked the first among the leading private property developers in Hong Kong (in terms of attributable gross floor area in private residential development in Hong Kong in 2019). Prior to 2018, we participated in projects initiated by Developer I mainly as a subcontractor engaged by Customer A. Since 2018, we were admitted as one of the approved subcontractors of Sanfield (being a subsidiary of Developer I) and started receiving tender invitations from Sanfield directly.

According to the F&S Report, some property developers are inclined to award their projects to their preferred main contractors, being their fellow group members, which in turn will further delegate work tasks to different subcontractors. Given that Sanfield is a group member and a main contractor of Developer I, our executive Directors consider that our admission as one of the approved subcontractors of Sanfield has strengthened our prospect in obtaining foundation works projects initiated by Developer I. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we received nil, seven, 40 and 30 tender invitations directly from Sanfield, with aggregate estimated tender sum of nil, approximately HK$19.8 million, HK$317.8 million and HK$1.0 billion, respectively. Out of the 47 tenders submitted by us to Sanfield during the three years ended 31 March 2020, we successfully obtained a total of five projects, with estimated contract sum ranging from approximately HK$0.2 million to HK$9.6 million. In June 2020, our Group was awarded with a sizeable project, namely Project No. O01 with estimated contract sum of approximately HK$328.5 million by Sanfield. For further details on Project No. O01, please refer to the paragraph headed "Business – Projects on hand" in this document.

Our executive Directors consider that we have strengthened our business relationships with Sanfield (being a subsidiary of Developer I) as evidenced by the increase in (i) the number of tender invitations given to us; and (ii) the scale of projects awarded to us by Sanfield since we became one of its approved subcontractors in 2018. Our executive Directors also believe that, to a certain extent, we had obtained Project No. O01 because we had demonstrated the quality and reliability of our foundation works to Sanfield in those previous projects, and our completed works have met its required standards and specifications. As at the Latest Practicable Date, we had 48 tenders submitted to Sanfield, which were undergoing the tender selection process and the results were still pending, with an aggregate estimated tender sum of approximately HK$1.0 billion. According to the F&S Report, Developer I, being the parent group of Sanfield, is famous for its high quality property developments and stringent requirements of subcontractor selection. Our executive Directors consider that our track record in undertaking foundation works for Sanfield directly will facilitate us to obtain more tender opportunities from other main contractors because our engagements with Sanfield would be considered favourably by them as a recognition of our service quality and reliability. Having considered the ranking and reputation of Developer I among the leading private property developers in Hong Kong, we anticipate that our working relationships with Sanfield will give us ample tender opportunities for additional and sizeable foundation works projects from Sanfield as well as other main contractors, and this will continue to be a growth driver for us to expand our market share.

(III) Leveraging our know-how and experience in performing comprehensive ELS works with various methods

Our executive Directors believe that our know-how and experience in performing comprehensive ELS works with various methods has distinguished our Group among other foundation works subcontractors, thereby exposing us to more tender opportunities and strengthening our prospect in securing additional foundation works projects. Apart from typical open-cut and bottom-up methods, we may use a top-down method to perform comprehensive ELS works if so requested by our customers. The top-down method increases the flexibility and efficiency in the planning and implementation of construction developments, particularly those involving high-rise buildings, as it allows both substructure and superstructure works to be carried out simultaneously. For further details regarding the top-down method used by us, please refer to the paragraph headed "Business – Description of our services – (i) ELS works" in this document.

According to the F&S Report, the use of top-down method in performing ELS works offers the following advantages as compared to other traditional methods, depending on the actual geological conditions and particular requirements for the site works:

- *Enhance project efficiency:* The top-down method allows early commencement of superstructure works without the need to await the substantial completion of excavation works to the required depth level, and hence the overall construction duration can be shortened.

- *Less temporary works involved:* ELS works performed under the top-down method involves the construction of a ground floor slab which serves as lateral support and reinforces the substructure walls in the surrounding areas. After the ground floor slab is completed, the superstructure work of the buildings can be performed at the same time as further excavation for the basement continues. With the support of the ground floor slab, ELS works performed under the top-down method generally requires less temporary works (such as setup of large steel platforms on or below the ground floor level to provide temporary support) as compared to other traditional methods, which in turn could shorten the construction period involved.

Based on the F&S Report, it is increasingly common for project owners and/or main contractors to require foundation works contractors to perform comprehensive ELS works using the top-down method mainly because there has been a general increase in the height of buildings built under sizeable private residential and commercial developments in Hong Kong in the past decade. The construction of high-rise buildings generally entails large scale of superstructure works. The cost advantage of using top-down method in such high-rise developments is more significant as it allows the superstructure works to commence at an early stage.

The use of top-down method is increasingly popular in sizeable foundation works projects in recent years. For the three financial years ended 31 March 2020, we were specifically requested to use the top-down method to carry out ELS works for a total of four projects initiated by Developer I. Each of these projects was sizeable project with estimated contract sum above HK$30 million. The gross profit margin of our projects using the top-down method were generally higher than those using the bottom-up method. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, the average gross profit margin attributable to these projects using top-down method was approximately 17.4%, 19.3%, 15.2% and 16.9%, respectively, as compared to 5.1%, 13.5%, 10.7% and 13.9%, respectively, for projects using bottom-up method during the corresponding period. While the gross profit margin derived from our projects is partly affected by the methods for performing the ELS works, there are also other factors which affect the profitability of our projects such as our working relationship with the relevant customers and associated property owners, etc. In June 2020, we obtained Project No. O01 with estimated contract sum of HK$328.5 million from Sanfield (being a subsidiary of Developer I). Based on the tender information available, we are expected to perform the ELS works under Project No. O01 with the top-down method.

According to the F&S Report, it is increasingly common for project owners and/or main contractors to require foundation works contractors to perform comprehensive ELS works using the top-down method, and the use of top-down method is relatively popular in sizeable construction developments as the time and costs to be saved from the use of top-down method for ELS works are generally more significant in large scale foundation works due to economies of scale. As aforementioned, the use of top-down method in performing ELS works could generally shorten the overall construction duration which in turn lower the direct labour costs incurred by foundation works contractors as construction workers are generally paid with a daily wage based on the number of days they work. Hence, projects with shorter duration may result in lower labour hours and associated direct labour costs. Owing to the technical know-how and expertise involved, only a limited number of foundation works contractors which are sizeable in scale are capable of carrying out ELS works using the top-down method in Hong Kong.

Taking into consideration (i) the increasing use of the top-down method in the foundation industry in Hong Kong and the associated advantages in terms of time and cost efficiency; and (ii) the limited number of foundation works contractors which possessed the skills and know-how in carrying out ELS works using the top-down method according to the F&S Report, our executive Directors consider that our skills, know-how and experience in such field will increase our tender exposure and strengthen our prospect in securing future business opportunities.

(IV) Diversification in our customer base

Our Group has recorded an increase in number of customers with revenue contribution throughout the Track Record Period. The number of customers which generated revenue to us increased from six in FY2017/18 to eight in FY2018/19 and further increased to 13 in FY2019/20. Our executive Directors consider that the increase in number of our customers represents our consistent efforts in expanding and diversifying our customer base and our ability in fulfilling different customers' requirements and specifications. We believe that an enlarged and diversified customer base will broaden our market exposure in the foundation works subcontracting industry, increase our tender opportunities for foundation works projects and facilitate our continuous efforts in expanding our market share in the foundation industry.

REASONS FOR THE [REDACTED]

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong foundation industry. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional foundation projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand. Our executive Directors believe that the **[REDACTED]** is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- the **[REDACTED]** from the **[REDACTED]** will provide additional financial resources to our Group for our business plans as set out in the paragraph headed "Business – Business strategies" of this document, which will further strengthen our market position and expand our market share in the foundation industry in Hong Kong;

- a **[REDACTED]** status will enhance our corporate profile and recognition and enable our Group to be considered more favourably by our customers when tendering for foundation works projects, given that a **[REDACTED]** company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance;

- the **[REDACTED]** will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the **[REDACTED]** for equity and/or debt financing, both at the time of the **[REDACTED]** as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholders' return; and

- upon the **[REDACTED]**, our Shares will be freely traded on the Stock Exchange. A **[REDACTED]** status will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the **[REDACTED]**.

Funding needs for implementing our business strategies

As at 31 December 2020, our cash and cash equivalents, which represents our immediately available working capital, amounted to approximately HK$11.4 million, as set out in the paragraph headed "Financial information – Net current assets" in this document. Our executive Directors consider that the amount of our available working capital fluctuates from time to time, depending on the timing of (i) payment from our customers; and (ii) payment to our subcontractors and suppliers of materials and other services. We had experienced significant growth in the scale of our operations during the Track Record Period, as evidenced by the increase in our revenue recognised from approximately HK$170.2 million for FY2017/18 to approximately HK$272.9 million for FY2018/19, and further to approximately HK$404.8 million for FY2019/20. In order to cope with the growth in our business scale, the average monthly expenses incurred by us, primarily comprising staff cost, subcontracting fees, cost of materials, waste disposal and related fees, administrative expenses and other miscellaneous for our daily operations, had increased from approximately HK$12.3 million for FY2017/18 to approximately HK$19.8 million for FY2018/19, and further increased to approximately HK$29.1 million for FY2019/20. Subsequent to the Track Record Period, we had obtained a sizeable project with estimated contract sum of approximately HK$41.6 million. In light of the continuous growth in the scale of our business operations and the associated working capital requirements, our executive Directors consider that it is financially prudent for us to reserve our current available cash resources for meeting our operating expenses.

In view of the aforesaid, our current available working capital would not have room for our further business expansion such as acquiring additional machinery, expanding our workforce and/or undertaking additional projects which would inevitably require more available cash for up-front costs and general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the **[REDACTED]** to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

[REDACTED]

We estimate that the **[REDACTED]** from the **[REDACTED]** (assuming the **[REDACTED]** is not exercised) based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** Range of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, after deducting the related expenses, are estimated to be approximately HK$**[REDACTED]** million. We intend to apply such **[REDACTED]** in the following manner:

(a) approximately HK$**[REDACTED]** million, representing approximately **[REDACTED]**% of the estimated **[REDACTED]**, will be used for financing the up-front costs of our projects.

Earmarked projects

Our executive Directors have earmarked four projects which we intend to apply our **[REDACTED]** towards fulfilling part of the relevant up-front costs. The remaining portion will be funded by our internal resources and/or debt financing. Out of the four earmarked projects, (i) three of the projects (Project No. O01, Project No. O03 and Project No. O15), with aggregate original estimated contract sum of approximately HK$420.5 million, have already been awarded to us in June 2020, June 2020 and October 2020, respectively; and (ii) the remaining one is tender submitted of which our Directors are confident that we shall be able to secure taking into account the latest negotiation with the customer.

The following table sets forth the particulars of these earmarked projects:

Project No.	Customer	Private/ public sector	Type of development	Location of the project	Status	Date of commencement and completion of our works (Note 1)	Estimated contract sum/ Tender amount HK$'000	Estimated amount of up-front costs HK$'000
O01	Sanfield	Private	Residential	Kai Tak	Awarded (Note 2)	Commencement: August 2020 Completion: March 2022	328,524	31,538
O03	Customer B	Private	Residential	Kai Tak	Awarded (Note 3)	Commencement: January 2021 Completion: September 2021	50,367	4,835
O15	Customer B	Public	Residential	Tung Chung	Awarded (Note 4)	Commencement: March 2021 Completion: September 2021	41,565	3,990
T01	Sanfield	Private	Residential	Sai Kung	Tender submitted; attended tender interview and submitted revised fee quotation	Commencement: Second quarter of 2021 Completion: First quarter of 2022	65,449	6,283
						Total:	485,905	46,646 (Note 5)

Notes:

1. The expected commencement and completion dates are provided based on our management's best estimation. In making the estimation, our management takes into account factors including the formal contract (if applicable), the tender information available from the relevant customers and the estimated work schedule.

2. In respect of Project No. O01, notwithstanding that Project No. O01 had commenced in August 2020, our Group had thus far mainly performed site formation works and excavation works, which did not create significant net cash outflows since the commencement of the project up to the Latest Practicable Date. Our executive Directors expect that our up-front costs ("**Project No. O01 Up-front Cost**") will primarily comprise the costs in relation to our performance of ELS works under the project, including materials costs, subcontracting fees as well as waste disposal and related fees which represents our project startup costs. In particular, under the contract of Project No. O01, we are required to procure the requisite materials, mainly including metal parts, at our cost before the commencement of those relevant works.

   Based on the available project schedule and our communication with Customer I, our executive Directors anticipate that the substantial parts of ELS works under Project No. O01 will commence from April 2021 onwards. Accordingly, we foresee that the Project No. O01 Up-front Cost will be incurred by us during the period between the second to fourth quarter of 2021 as we start making procurement for the requisite materials and subcontracting services for the ELS works as aforesaid. Given our customers generally make progress payments to us according to our work progress, there is generally a time lag between making payments to our material suppliers and subcontractors and receiving progress payments from our customers. In light of (i) the materials costs required to be borne by us under Project No. O01; and (ii) the importance of Project No. O01 in building up Customer I's confidence in our ability in handling mega-scale foundation works, we believe that it is crucial for us to reserve an adequate amount of working capital to support us in carrying out the ELS works under the project.

3. In respect of Project No. O03, while Project No. O03 had commenced in January 2021, the project was still in its preliminary stage and had not incurred significant up-front costs as at the Latest Practicable Date. Our executive Directors expect that our up-front costs, which primarily comprise of materials costs, subcontracting fees as well as waste disposal and related fees, will be incurred by us mainly from March 2021 onwards.

4. As at the Latest Practicable Date, Project No. O15 has not commenced and we have not incurred any up-front cost for this project.

5. The estimated amount of up-front costs of the four earmarked projects is approximately HK$46.6 million. Under our current plan, approximately HK$**[REDACTED]** million of the up-front costs will be financed by the **[REDACTED]** from the **[REDACTED]**, and the remaining HK$**[REDACTED]** million will be financed using a combination of our internal resources and debt financing under our available bank facilities.

In respect of our tender submitted for Project No. T01, we had attended tender interview and submitted our revised fee quotation to Sanfield in November 2020. As at the Latest Practicable Date, our executive Directors confirmed that the customer of Project No. T01 has verbally informed them that due to adjustment to the layout of the relevant residential development in Sai Kung, the tender selection process has been prolonged. Our Directors are positive about our prospects in obtaining Project No. T01 because of the fact that we were requested to submit revised fee quotation following our tender interview is generally considered to be an indication that we were shortlisted to the final stage of tender selection process. Based on the experience of our executive Directors, only a limited number of foundation works subcontractors would be shortlisted by Sanfield for selection at the final stage of tender selection process.

Although our Directors are confident that we shall be able to secure the tender for Project No. T01 based on its latest tender status, there is no assurance that such tender will eventually be awarded to us. Should we be unable to secure such project, we will continue to submit tenders actively for alternative projects which will utilise the **[REDACTED]** allocated for financing the associated up-front costs. As at the

Latest Practicable Date, our Group had 56 tenders (excluding Project No. T01), with an aggregate estimated tender amount of approximately HK$1.2 billion, which were still undergoing tender selection process and pending tender result. There is inherent uncertainty involved in predicting the number and scale of projects which will eventually be awarded to us and when exactly we are required to make available cash for up-front costs. Further, the time required to complete tender review process and the subsequent award of contract varies depending on the customer and project size.

Therefore, there is no assurance that we can accurately estimate when the results for the tenders we submitted are released or when exactly we are required to incur the up-front costs for the projects awarded. These timelines will depend on, among others, (i) the timetable of the potential project which may or may not be available to us before we submit a tender; (ii) the particular customer's internal arrangement which may be affected by market conditions and may or may not adhere to the original project timetable provided to us; (iii) the scope of work of the project which may in turn affect whether and when we are required to make payments to our subcontractors and suppliers; and (iv) our negotiation with our customers which may in turn affect the payment terms of our projects.

As mentioned above, as at the Latest Practicable Date, our Group had 56 tenders (excluding Project No. T01), with an aggregate estimated tender amount of approximately HK$1.2 billion, which were still undergoing tender selection process and pending tender result. While we are confident that we shall be able to secure the tender for Project No. T01, we do not expect all of our remaining tendered projects would eventually be successful, taking into consideration our tender success rate of approximately 17.1%, 19.3%, 14.7% and 14.5% for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, respectively.

In light of the growth in the foundation industry in the past few years, we had received an increasing number of tender invitations from our customers during the Track Record Period. On occasion, in order to (i) maintain our business 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 formulating our tender strategy in the future, we would respond to our customers by submitting tenders instead of turning down their invitations. In such circumstances, our executive Directors would take a more prudent approach in cost 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.

Currently, it is our priority to ensure sufficient cash resources for meeting the working capital requirements of our four earmarked projects (details of which are set out in the paragraphs above) by a combination of the **[REDACTED]** from the **[REDACTED]**, our internal resources and bank facilities. We closely monitor our working capital to ensure that our financial obligations can be fulfilled when due. For further details on our liquidity risk management, please refer to the paragraph headed

"Business – Risk management and internal control systems – (v) Liquidity risk management" in this document. In the event that our available cash resources are insufficient to finance the up-front costs of our other submitted tenders which are eventually awarded to us, our Group may consider to proceed with the following option(s), depending on the shortfall in the fund required for the project(s) and our relationships with the relevant customer(s):

(i) making use of our unutilised bank facilities and/or obtaining debt financing through applying for additional bank facilities or procuring loans from Non-Authorised Institutions;

(ii) withdrawing our tenders for those projects which we receive indications from our customers that they are planning or inclined to award to us before the letters of awards are formally issued; or

(iii) declining any suggestions from our customers for revising our tender price during the tender selection process so as to lower the price competitiveness of our tenders.

Our more proactive tendering strategy in anticipation for [REDACTED]

In general, upon receipt of tender invitations from our customers, 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 and financial resources and feasibility of the project to determine whether we should proceed with the preparation of tender. Historically, we had primarily relied on the cash flow generated from our operating activities to finance the up-front costs of our projects. Along with our business expansion and since the formulation of our plan for **[REDACTED]**, we have adopted a more proactive tendering strategy in that, to a certain extent, we would take into account the additional funds which are expected to be available from the **[REDACTED]** when we assess our financial resources for funding the costs of our potential projects.

In June 2020, our Group was awarded with a project, namely Project No. O01 (details of which are set out in the paragraph headed "Business – Projects on hand" in this document), by Sanfield with an estimated contract sum of approximately HK$328.5 million. As we assessed the feasibility of making tender submission, we had considered the following additional factors which are pertinent to Project No. O01: (i) our tender for Project No. O01, if successful, would be a milestone in our operating history as it represents the largest project (in terms of estimated contract sum) awarded to us since our establishment and this would likely have significant positive impact on our industry reputation; and (ii) Project No. O01 would be our first opportunity in handling a sizeable project directly for Sanfield (being a subsidiary of Developer I) while Sanfield had previously engaged us only for several smaller scale projects since 2018. As such, the successful award of Project No. O01 would be a solid recognition of our past performance and may open up more tender opportunities for sizeable projects to us in the future. Owing to the sizeable scale of Project No. O01, we estimated that our Group will have to incur approximately HK$31.5 million as up-front costs for this project. Even though Project No. O01 may increase our liquidity needs, our executive Directors believe that it is commercially justifiable for us to pursue Project No. O01 taking into account the potential benefits brought by Project No. O01 as explained above.

Currently, we intend to allocate HK$**[REDACTED]** million of the estimated **[REDACTED]** from the **[REDACTED]** for financing the up-front costs of certain projects which were had commenced but yet to incur significant up-front costs (i.e. Project No. O01 and Project No. O03), project awarded to us but yet to be commenced (i.e. Project No. O15) as well as the tendered project (i.e. Project No. T01) set out in the paragraph headed "**[REDACTED]** – Earmarked projects" above in this section. Assuming our **[REDACTED]** becomes successful in **[REDACTED]** according to our tentative timetable, we could then apply the **[REDACTED]** towards financing the up-front costs of such earmarked projects due to the following reasons:

- based on the available project schedule and our communication with Customer I, our executive Directors anticipate that the substantial parts of ELS works under Project No. O01 will commence from April 2021 onwards. Accordingly, we foresee that the up-front cost of Project No. O01 will be incurred by us during the period between the second to fourth quarter of 2021 as we start making procurement for the requisite materials and subcontracting services for the ELS works. For further details on the implementation status of Project No. O01, please refer to the paragraph headed "**[REDACTED]** – Earmarked projects" above in this section;

- our executive Directors estimated that up-front costs of Project No. O03 will be incurred by us from March 2021 onwards as we start making payments for the substantial portion of requisite materials and subcontracting services for the work done; and

- we tentatively expect that Project No. O15 and Project No. T01 to commence in March 2021 and the second quarter of 2021, respectively. As such these projects will either still be at a fairly early stage or will yet to be commenced by the time of our proposed **[REDACTED]** (i.e. early-**[REDACTED]**) and we will not have incurred significant up-front costs in relation to such projects by then, given that the Up-front Period for sizeable projects are generally longer and may last up to seven months.

Our executive Directors are aware of the inherent uncertainties regarding the outcome and timing of our plan for **[REDACTED]**. Therefore, as part of our financial management measures, we secured a new bank facilities amounting to approximately HK$21.8 million, comprising HK$18.0 million of bank loans for working capital purpose and approximately US$484,000 of life insurance loan. For further details, please refer to the paragraph headed "Financial information – Indebtedness" in this document. If there is any delay in the **[REDACTED]** schedule such that we may not be able to receive the estimated **[REDACTED]** from the **[REDACTED]** by early-**[REDACTED]**, being the estimated latest time when the funding shall be deployed without affecting the projects schedule, we may apply a combination of our internal resources and debt financing under the new bank facility to meet the short-term liquidity needs of our ongoing projects. In particular, it is estimated that we will incur in aggregate approximately HK$40.4 million as up-front costs for Project No. O01, Project No. O03 and Project No. O15. If our internal resources and debt financing in aggregate are eventually insufficient to fund the up-front costs of our projects, we may resort to one or more of the following contingency measures to further support our liquidity needs:

- We may seek to procure cash injection through shareholders' loan. The amount of injection is limited by the amount of realisable assets held by our Controlling Shareholders, and there is no assurance that our Controlling Shareholders possess sufficient personal assets to fully support our operations.

- We may seek to apply for additional bank facilities. There is no guarantee that we could successfully obtain additional bank facilities at reasonable interest rates due to lack of securities that we could provide and the fact that personal guarantees had been given by our Controlling Shareholders for securing the bank facility under the existing offer.

- We may seek to procure loans from lending companies which are Non-Authorised Institutions in Hong Kong. The lending rate imposed by Non-Authorised Institutions is generally significantly higher than that offered by traditional licensed banks. The drawdown of high-interest bearing loans from Non-Authorised Institutions would incur much higher finance costs and would deteriorate our profitability and financial performance in the long run.

- We may significantly reduce or cease our submission of new tenders until such time we receive sufficient cash inflows from the existing projects as our reserve for new projects. While we may free up certain financial resources by refraining from submitting new tenders, this may be detrimental to our competitiveness because failure to respond to tender invitations may be perceived negatively by our customers and they could be less inclined to invite us to tender for their projects again in the future.

As shown in the above analysis, each of our contingency measures is subject to different drawbacks and limitations. Therefore, our executive Directors believe that the most viable approach for us to strengthen our capital resources is through equity financing such that we could undertake more sizeable projects, which have higher up-front cost requirements, in the long run.

(b) approximately HK$**[REDACTED]** million, representing approximately **[REDACTED]**% of the estimated **[REDACTED]**, will be used to purchase machinery comprising of 13 excavators and one crawler crane.

(I) Maintaining a fleet of machinery which is commensurate with our operation scale

Our operations involve intensive use of machinery. The types of machinery commonly used in our foundation works projects include excavators, loaders, crawler cranes and bending machines. During the Track Record Period, our Group has made consistent effort in maintaining and enhancing our fleet of machinery so as to match with our increasing machinery needs in light of the expansion in our operation scale. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we purchased machinery in the amount of approximately HK$8.8 million, HK$13.1 million, HK$12.1 million and HK$3.6 million at costs, respectively. In undertaking our projects, it is all along our Group's practice to use our own machinery as far as practicable, instead of heavily rely on our subcontractors or rental service providers to provide the required machinery. As at the Latest Practicable Date, we owned 97 excavators, 11 loaders, one crawler crane and two bending machines.

During the Track Record Period, we had experienced significant growth in our business operations due to the increase in number and scale of foundation projects undertaken by us. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, there were 17, 21, 33 and 28 projects which contributed revenue of approximately HK$170.2 million, HK$272.9 million, HK$404.8 million and HK$221.2 million to our Group, respectively.

To cope with the growing machinery needs in light of the significant growth in our business operations, our Group had regularly reviewed the scale and operating conditions of our fleet of machinery and made continual investments in machinery accordingly. In particular, the number of excavators owned by us increased from 53 as at 31 March 2018 to 75 as at 31 March 2019 and further increased to 89 as at 31 March 2020, whereas the number of loaders owned by us increased from five as at 31 March 2018 to seven as at 31 March 2019 and further increased to nine as at 31 March 2020. Most of our machinery had maintained relatively high level of utilisation rate during the Track Record Period. For instance, the utilisation rate of our excavators increased from approximately 86.3% for FY2017/18 to approximately 91.0% for FY2018/19 and further increased to approximately 91.2% for FY2019/20; whereas the utilisation rate of our crawler crane was approximately 98.2% and 98.3% for FY2018/19 and FY2019/20, respectively. In light of the increasing trend in the utilisation rate of our machinery during the Track Record Period, our executive Directors consider that our current fleet of machinery is mostly occupied with our projects on hand and may not be able to support our further business expansion. For further details, please refer to the paragraph headed "Business – Machinery and motor vehicles" in this document.

In undertaking our projects, our Group has leased machinery from rental service providers on an as-needed basis when our own machinery were substantially occupied. For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, we incurred approximately HK$1.8 million, HK$0.6 million, HK$3.4 million and HK$1.8 million for rental of machinery. Our executive Directors consider that machinery rental has played a relatively minor role in our business operations during the Track Record Period, which is supported by the fact that the amount we incurred for rental of machinery was significantly lower than the cost of investment we made for the acquisition of machinery during the same periods. Therefore, while machinery rental may supplement our service capacity on a temporary basis, it is all along our priority to continuously invest in our own machinery so as to fulfil the machinery needs for our growing business operations, and we intend to adhere to such practice in light of the benefits of using our own machinery as compared to machinery rental as explained in further details below.

Going forward, we intend to maintain our business growth by obtaining additional and sizeable foundation projects from our existing and potential customers. Subsequent to the Track Record Period, we have obtained a sizeable project, namely Project No. O15, with estimated contract sum of approximately HK$41.6 million. As at the Latest Practicable Date, we had 16 projects on hand, among which, seven projects (including Project No. O15) are each expected to generate revenue of HK$10.0 million or above to us after the Track Record Period. In addition, our Group had a total of 55 submitted tenders with an aggregate estimated tender amount of approximately HK$1.3 billion, that were still undergoing tender selection process and pending tender results as at the Latest Practicable Date.

For illustration purpose, the table below sets forth a hypothetical analysis of our estimated net annual cost savings assuming all the additional machinery are acquired by us as compared to leasing from third parties:

	HK$'000
Estimated net annual cost savings	
– Rental of machinery *(Note 1)*	12,840
Less	
– Additional staff costs *(Note 2)*	(453)
– Additional depreciation expenses, repair and maintenance and other miscellaneous costs *(Note 3)*	(5,498)
	6,889

Notes:

1. Rental of machinery is based on fee quotations or invoices obtained from rental service provider, and consists of (i) the cost for renting 13 excavators; and (ii) the cost of renting one crawler crane, which comprises the deployment of a machinery operator by the rental services provider to assist us in operating the crawler crane.

2. The additional staff costs consist of the staff cost of a machinery operator for our crawler crane. We do not take into account the staff cost of additional machinery operators required for the new excavators as it is our practice to deploy our own machinery operators for excavators, regardless of whether such excavators are self-owned or leased from third parties.

3. Based on the accounting policies adopted by our Group, depreciation on machinery is calculated using the straight-line method with an annual depreciation rate of 15%. The repair and maintenance cost was determined based our executive Directors' estimation with reference to the level and frequency of repair and maintenance required for our machinery during the Track Record Period.

As illustrated in the above hypothetical analysis, if the additional machinery are acquired by us as compared to leasing from third parties, our estimated net annual cost savings would be approximately HK$6.9 million.

Taking into account the growth trend in the number and scale of projects undertaken by us, our executive Directors consider that our current plan in applying part of the **[REDACTED]** from the **[REDACTED]** for the acquisition of 13 excavators and one crawler crane is commensurate with our growing machinery needs and will facilitate our Group in adhering to our practice of using our own machinery as far as practicable.

(II) Enhancing our efficiency and flexibility in deployment of machinery

The projects undertaken by us generally cover different locations in Hong Kong. Based on our operating history during the Track Record Period, we estimated that a project with estimated contract sum of HK$10.0 million to below HK$50.0 million would require on average ten to 15 sets of excavators for the substantial site works; whereas a project with estimated contract sum above HK$50.0 million would require on average 20 sets of excavators for the substantial site works. Our Group generally deploys and stations the required number of machinery at the construction sites in order to facilitate project implementation and to minimise the time and cost incurred for the transportation of machinery. As mentioned above, it is our Group's practice to use our own machinery as far as practicable, instead of heavily rely on our subcontractors or rental service providers to provide the required machinery. Our executive Directors consider that the use of our own machinery allows us to mobilise machinery more efficiently and expeditiously according to our project schedule and customers' requirements.

To a lesser extent, depending on the service capacity and availability of our machinery fleet as well as the types of machinery required, we also leased machinery from rental service providers or require our subcontractors to equip themselves with the necessary machinery. Nevertheless, our executive Directors consider that it is in our Group's interest to maintain minimal reliance on our subcontractors and/or rental service providers for the provision of the required machinery in the long run taking into account the following factors:

(i) there is no assurance that we could procure the required number and/or types of machinery from our rental service providers or subcontractors at commercially acceptable terms or at all. Failure to procure the required number and types of machinery on a timely basis may result in delay in our work progress and expose us to potential claims from customers for liquidated damages due to failure to deliver or perform our works within the time specified in the contract;

(ii) there may be times when the machinery of our rental service providers or subcontractors being left idle on a specified project site. However, we are contractually prohibited from re-deploying such machinery to our other project sites to facilitate the progress of our overall project implementation unless we incur additional costs and reach a separate agreement with the relevant rental service providers or subcontractors; and

(iii) according to the F&S Report, having a fleet of self-owned machinery is considered to be a competitive edge in capturing tender invitations from contractors for foundation works. As such, our executive Directors consider that the possession of an established machinery fleet could strengthen our customers' confidence in our technical capability, proficiency in undertaking foundation works of different scales and complexities and financial stability.

Based on the aforesaid, our executive Directors consider that the possession of an enlarged fleet of machinery (i) increases our flexibility and efficiency in machinery deployment which in turn could better accommodate the progress of our ongoing projects; (ii) minimises the risks of failing to procure the required number and/or types of machinery at commercially acceptable terms or at all; and (iii) strengthens our customers' confidence in us and enhances the competitiveness of our future tenders for foundation works projects.

(c) approximately HK$**[REDACTED]** million, representing approximately **[REDACTED]**% of the estimated **[REDACTED]**, will be used for further expanding and strengthening our manpower by recruiting one site agent, one engineer, two quantity surveyors, one safety officer, three site foremen, 20 site workers, four machinery operators and two accounting staff.

Our recruitment plan

The following table sets out the number of staff that we intend to recruit by positions and their respective preferred experience and/or qualifications:

Position	**Preferred experience and/or qualifications**	**No. of staff**
Site agent	• Minimum eight years of relevant work experience	1
Engineer	• Chartered engineer • Minimum ten years of relevant work experience	1
Quantity surveyor	• Chartered surveyor • Minimum three to five years of relevant work experience	2
Safety officer	• Minimum five years of relevant work experience	1
Site foremen	• Minimum eight years of relevant work experience	3
Site workers	• Minimum three years of relevant work experience	20
Machinery operators	• Minimum three years of relevant work experience	4
Accounting staff	• Certified public accountant • Minimum three to five years of relevant work experience	2

We do not have sufficient manpower to undertake additional and sizeable projects

For FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020, there were 17, 21, 33 and 28 projects which contributed a total of approximately HK$170.2 million, HK$272.9 million, HK$404.8 million and HK$221.2 million to our revenue, respectively. In order to accommodate the increase in workload associated with the growth trend in number and scale of projects undertaken by us and to maintain our flexibility and efficiency in manpower deployment according to our schedule planning, we have continuously expanded our workforce and maintained our practice in giving priority to deploying our own workers for the site works involved in our projects, as demonstrated by (i) the increase in the number of our site workers from 33 as at 31 March 2018 to 88 as at the Latest Practicable Date; and (ii) the increase in the number of our project management personnel from nine as at 31 March 2018 to 19 as at the Latest Practicable Date.

Going forward, our executive Directors believe that we have genuine and imminent needs to expand our manpower considering (i) as at the Latest Practicable Date, our Group had 56 tenders (excluding Project No. T01), with an aggregate estimated tender amount of approximately HK$1.2 billion, which were still undergoing tender selection process and pending tender result; (ii) we cannot assure that the work schedule of our on-going projects would not be extended as a result of additional works orders from our customers; and (iii) it is vital for us to adhere to our past practice and maintain sufficient staff to carry out our works in order to avoid over-reliance on our subcontractors.

Having a larger workforce can facilitate us to have better cost and quality control in handling additional and sizeable projects

During the Track Record Period, we have adhered to the practice of deploying our own workers to handle a significant portion of the site works in our projects. Our executive Directors consider that the deployment of our own workforce (as compared to engaging subcontractors) would generally lead to a higher profit margin for us because (i) a profit mark-up is generally factored in the fees charged by our subcontractors; and (ii) our Group can perform in the same or higher level of efficiency with our direct labour as compared to our subcontractors. As a result, our executive Directors are of the view that expansion in our workforce would give our Group higher capacity and profitability in undertaking more sizeable projects.

Based on our operation history during the Track Record Period, those projects that we delegated a larger portion of works to our subcontractors had recorded a lower gross profit margin by an average of three percentage points as compared to our overall gross profit margin. By maintaining sufficient in-house manpower for undertaking our existing portion of site works in additional projects, our executive Directors believe that we will be able to maintain our profitability as we could have better control on our operating costs, thereby strengthening our chance for obtaining new projects.

Our service quality largely depends on the skillsets and experience of the project management personnel and site workers involved. Our executive Directors believe that we have better control over the selection and deployment of our direct labour as compared to engaging subcontractors. During the recruitment process of our staff, our finance and administrative staff will evaluate the candidates through checking their registrations under the Construction Worker Registration Ordinance, verifying their prior employment history and, if necessary, arranging personal interviews with our executive Directors. Further, we also provide various types of internal trainings as well as courses organised by external parties such as the Construction Machinery Technical Training Centre and other training service providers. Besides, deployment of our own workforce enables us to better control our quality standards, as our own staff are in general more familiar with the standards imposed by us due to their work experience and guidance received in our previous projects.

Moreover, in line with our past strategy, our executive Directors consider that by maintaining a pool of skilled workers, we could minimise the risk of disruption to our operations that may result from potential unavailability of subcontracting services at commercially acceptable terms and/or according to our work schedules. Further, by increasing our in-house capacity, it would give us greater flexibility in (i) deploying sufficient workers to meet the tight schedule sometimes imposed by our customers or to handle any urgent work tasks; and (ii) preserving our project management efficiency and service quality.

The primary objective of our planned recruitment is to ensure sufficient in-house capacity for us to maintain the existing portion of site works undertaken by our own labour in the projects. Going forward, we will continue to engage our subcontractors to supplement our service capacity when necessary, while we will maintain the existing practice of using our own workforce to handle our site works as far as practicable. In addition, in line with our past practice, we will continue to engage subcontractors for performing certain types of specialised works including certain ELS works such as shoring works and certain pile cap construction such as steel reinforcement works and formwork erection works when necessary.

(d) approximately HK$**[REDACTED]** million, representing approximately **[REDACTED]**% of the estimated **[REDACTED]**, will be used for purchasing a building information modeling software together with certain ancillary supporting hardware device.

The following table sets out a summary of our implementation plan:

	From the [REDACTED] to 31 March 2021	From 1 April 2021 to 31 March 2022	From 1 April 2022 to 31 March 2023	Total	Approximate % of [REDACTED]
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	
Financing the up-front costs of our projects	[REDACTED]	[REDACTED]	–	[REDACTED]	[REDACTED]%
Purchasing additional machinery	–	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]%
Further expanding and strengthening our manpower by recruiting additional staff	–	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]%
Purchasing a building information modeling software together with certain ancillary supporting hardware device	–	[REDACTED]	–	[REDACTED]	[REDACTED]%
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]%

There can be no assurance that the **[REDACTED]** from the **[REDACTED]** will be sufficient for fully implementing our business expansion plans. For instance, (i) the up-front costs requirement for projects awarded to us may exceed the **[REDACTED]** allocated for such purpose as set out above; (ii) the number of machinery we intend to purchase may not be sufficient to fulfil the machinery needs associated with the increase in number and scale of projects to be undertaken by us; and (iii) the number of additional staff we intend to recruit may not fulfil the manpower needs as we continue to undertake additional and more sizeable projects. In the event any of the above occurs or that the **[REDACTED]** becomes unsuccessful such that the **[REDACTED]** from the **[REDACTED]** becomes unavailable to us, we may adjust the timing and scale of our business expansion plans and/or seek alternative form of financing.

To the extent that the **[REDACTED]** are not immediately applied to the above purposes and to the extent permitted by the applicable laws and regulations, we intend to deposit the **[REDACTED]** into short-term interest-bearing deposits with authorised financial institutions and/or licensed banks in Hong Kong.

In the event that the **[REDACTED]** is exercised in full, we estimate that we will receive additional **[REDACTED]** from the sales of these additional **[REDACTED]** of approximately HK$**[REDACTED]** million, after deducting the **[REDACTED]** and other estimated **[REDACTED]** payable by us and assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the proposed **[REDACTED]** Range of HK$**[REDACTED]** to HK$**[REDACTED]**. In the event that the **[REDACTED]** is set at the low-end of the proposed **[REDACTED]** Range and the **[REDACTED]** is exercised in full, our Company will receive additional **[REDACTED]** of approximately HK$**[REDACTED]** million. In the event that the **[REDACTED]** is set at the high-end of the proposed **[REDACTED]** Range and the **[REDACTED]** is exercised in full, our Company will receive additional **[REDACTED]** of approximately HK$**[REDACTED]** million. The allocation of the additional **[REDACTED]** will be used in the same proportions as set out above.

Assuming the **[REDACTED]** is not exercised at all, and in the event that the **[REDACTED]** is set at the highest or lowest point of the indicative **[REDACTED]** Range, the **[REDACTED]** to be received from the **[REDACTED]** will increase or decrease by approximately HK$**[REDACTED]** million, respectively. In such event, the **[REDACTED]** will be used in the same proportions as disclosed above.

We will issue an announcement in the event that there is any material change in the **[REDACTED]** of the **[REDACTED]** as described above.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

The following version is the text of a report, prepared for the purpose of incorporation in this document, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Kwong Luen Engineering Holdings Limited

Grande Capital Limited

Dear Sirs,

We report on the historical financial information of Kwong Luen Engineering Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-57, which comprises the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2020 (the "Track Record Period"), and the combined statements of financial position of the Group as at 31 March 2018, 2019 and 2020 and 31 August 2020, and the statement of financial position of the Company as at 31 August 2020, and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-57 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated 26 February 2021 (the "Document") in connection with the **[REDACTED]** of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company (the "Directors") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on

Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 March 2018, 2019 and 2020 and 31 August 2020 and the financial position of the Company as at 31 August 2020, and of the financial performance and cash flows of the Group for the Track Record Period in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the five months ended 31 August 2019 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Certified Public Accountants
Hong Kong
[REDACTED]

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

(A) COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March			Five months ended 31 August	
		2018	2019	2020	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	6	170,225	272,916	404,825	74,918	221,235
Cost of sales		(150,746)	(239,692)	(352,608)	(65,375)	(192,712)
Gross profit		19,479	33,224	52,217	9,543	28,523
Other income and gains	6	321	1,105	450	229	1,562
Administrative expenses		(2,821)	(4,021)	(4,157)	(1,883)	(3,824)
Finance costs	8	(164)	(181)	(195)	(82)	(32)
[REDACTED]		–	–	**[REDACTED]**	–	**[REDACTED]**
PROFIT BEFORE TAX	7	16,815	30,127	46,380	7,807	18,629
Income tax expenses	11	(2,774)	(4,971)	(7,972)	(1,288)	(4,289)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		14,041	25,156	38,408	6,519	14,340
Attributable to:						
Owners of the Company		14,041	25,156	38,408	6,519	14,340

(B) COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 31 August
		2018	**2019**	**2020**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	14	19,507	24,777	29,847	30,307
Right-of-use assets	15	855	1,353	1,118	839
Prepayments and deposits	18	–	186	830	349
Total non-current assets		20,362	26,316	31,795	31,495
CURRENT ASSETS					
Contract assets	16	21,539	26,795	56,695	75,881
Trade receivables	17	889	16,976	10,397	14,685
Prepayments and deposits	18	43	–	1,095	4,553
Due from a director	19	15,967	18,395	7	–
Cash and cash equivalents	20	2,197	3,696	15,052	8,321
Total current assets		40,635	65,862	83,246	103,440
CURRENT LIABILITIES					
Trade and retention payables	21	6,930	18,755	18,825	25,628
Accruals and other payables	22	4,685	772	3,225	2,082
Interest-bearing bank and other borrowings	23	7,417	3,000	3,000	–
Lease liabilities	15	425	545	612	621
Tax payable		578	1,711	4,225	7,431
Total current liabilities		20,035	24,783	29,887	35,762
NET CURRENT ASSETS		20,600	41,079	53,359	67,678
TOTAL ASSETS LESS CURRENT LIABILITIES		40,962	67,395	85,154	99,173

		As at 31 March			As at 31 August
		2018	**2019**	**2020**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES					
Accruals and other payables	22	–	92	92	–
Lease liabilities	15	361	752	524	263
Deferred tax liabilities	24	2,343	3,137	3,716	3,748
Total non-current liabilities		2,704	3,981	4,332	4,011
Net assets		38,258	63,414	80,822	95,162
EQUITY					
Equity attributable to owners of the parent					
Share capital	25	–	–	–	–
Reserves	26	38,258	63,414	80,822	95,162
Total equity		38,258	63,414	80,822	95,162

(C) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital HK$'000 (note 26)	Retained profits HK$'000	Total HK$'000
At 1 April 2017		–	24,217	24,217
Profit and total comprehensive income for the year		–	14,041	14,041
At 31 March 2018 and 1 April 2018		–	38,258	38,258
Profit and total comprehensive income for the year		–	25,156	25,156
At 31 March 2019 and 1 April 2019		–	63,414	63,414
Profit and total comprehensive income for the year		–	38,408	38,408
Final 2019 dividend	12	–	(12,000)	(12,000)
Interim 2020 dividend	12	–	(9,000)	(9,000)
At 31 March 2020 and 1 April 2020		–	80,822	80,822
Profit and total comprehensive income for the period		–	14,340	14,340
At 31 August 2020		–	95,162	95,162
At 1 April 2019		–	63,414	63,414
Profit and total comprehensive income for the period (unaudited)		–	6,519	6,519
At 31 August 2019 (unaudited)		–	69,933	69,933

(D) COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 March			Five months ended 31 August	
		2018	2019	2020	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		16,815	30,127	46,380	7,807	18,629
Adjustments for:						
Finance costs	8	164	181	195	82	32
Interest income	6	–	–	(2)	–	–
(Gain)/loss on disposal of items of property, plant and equipment, net	7	–	(154)	5	–	–
Depreciation of property, plant and equipment	7	4,975	5,746	6,964	2,583	3,132
Depreciation of right-of-use assets	7	497	632	667	264	279
Impairment of trade receivables	7	–	–	–	–	168
Impairment of contract assets	7	–	–	–	–	1,341
		22,451	36,532	54,209	10,736	23,581
(Increase)/decrease in contract assets		2,439	(5,256)	(29,900)	(10,016)	(20,527)
(Increase)/decrease in trade receivables		3,841	(16,087)	6,579	16,242	(4,456)
Increase in prepayments and deposits	27(a)	–	(143)	(1,095)	–	(3,458)
Increase/(decrease) in trade and retention payables		5,996	11,825	70	(7,837)	6,803
Increase/(decrease) in accruals and other payables		(7,452)	(3,913)	2,453	7,601	(1,235)
Cash generated from operations		27,275	22,958	32,316	16,726	708
Interest paid		(133)	(144)	(156)	(64)	(16)
Interest element of lease payments		(31)	(37)	(39)	(18)	(16)
Hong Kong profits tax paid		(3,024)	(3,044)	(4,879)	–	(1,051)
Net cash flows from/(used in) operating activities		24,087	19,733	27,242	16,644	(375)

		Year ended 31 March			Five months ended 31 August	
		2018	**2019**	**2020**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		–	–	2	–	–
Purchases of items of property, plant and equipment		(8,785)	(12,012)	(12,140)	(6,325)	(3,111)
Prepayment paid for acquisition of items of property, plant and equipment		–	–	(644)	–	–
Proceeds from disposal of items of property, plant and equipment		–	1,150	101	–	–
Repayment from a director		–	–	–	–	7
Advances to a director		(15,967)	(2,428)	(2,612)	(1,058)	–
Net cash flows used in investing activities		(24,752)	(13,290)	(15,293)	(7,383)	(3,104)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment to a director		(3,930)	–	–	–	–
Principal portion of lease payments		(528)	(527)	(593)	(252)	(252)
Repayment of a bank loan		–	–	–	–	(3,000)
Net cash flows used in financing activities		(4,458)	(527)	(593)	(252)	(3,252)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(5,123)	5,916	11,356	9,009	(6,731)
Cash and cash equivalents at beginning of year/period		2,903	(2,220)	3,696	3,696	15,052
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		(2,220)	3,696	15,052	12,705	8,321

		Year ended 31 March			Five months ended 31 August	
		2018	**2019**	**2020**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	20	2,197	3,696	15,052	12,705	8,321
Cash and cash equivalents as stated in the combined statements of financial position	20	2,197	3,696	15,052	12,705	8,321
Bank overdrafts	23	(4,417)	–	–	–	–
Cash and cash equivalents as stated in the combined statements of cash flows		(2,220)	3,696	15,052	12,705	8,321

(E) STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	**As at 31 August 2020** *HK$'000*
CURRENT ASSET		
Due from the immediate holding company*		–
Total current asset*		–
Net asset*		–
EQUITY		
Issued capital*	25	–
Total equity*		–

* *This item was with an amount less than a thousand Hong Kong dollars.*

No statement of financial position as at 31 March 2018, 2019 and 2020 is presented as the Company has not been incorporated at that time.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 20 May 2020 with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. During the Track Record Period, the Group was principally engaged in the provision of construction services in Hong Kong. There has been no significant change in the Group's principal activities during the Track Record Period.

Kwong Luen Prosperity Limited ("Kwong Luen Prosperity"), a company incorporated in the British Virgin Islands (the "BVI") on 18 May 2020, is the immediate holding company of the Company. In the opinion of the Directors, Kwong Luen Prosperity is also the ultimate holding company of the Company.

The Company and its subsidiaries now comprising the Group underwent a group reorganisation (the "Reorganisation") as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Document. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As of the date of this report, the Company had direct and indirect interests in its subsidiaries, both of which are private limited liability companies (or, if incorporated outside Hong Kong, has substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kwong Luen Success Limited *(Note (a))*	BVI 18 May 2020	US$1	100	–	Investment holding
Kwong Luen Engineering Limited (hereafter, "Kwong Luen Engineering") *(Note (b))*	Hong Kong 25 May 1995	HK$2	–	100	Provision of construction services

Notes:

(a) No audited financial statements have been prepared for this entity since its incorporation as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

(b) The statutory financial statements of this entity for the years ended 31 March 2018 and 2019 prepared under the Hong Kong Small and Medium-sized Entity Financial Reporting Standard were audited by Global Vision CPA Limited (certified public accountants registered in Hong Kong).

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Document, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Track Record Period on 17 February 2021.

As the Reorganisation only involved inserting new holding companies at a top of an existing operating entity and has not resulted in any changes of economic substance, the Historical Financial Information for the Track Record Period has been presented as a continuation of the existing group using the pooling of interests method.

Accordingly, the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows are prepared as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position as at 31 March 2018, 2019 and 2020 and 31 August 2020 present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs, including HKFRS 15 "*Revenue from Contracts with Customers*", amendments to HKFRS 15 "*Classifications to HKFRS 15 Revenue from contracts with Customers*" and HKFRS 9 "*Financial Instruments*", which are effective for the accounting period commencing from 1 April 2018, and HKFRS 16 "*Leases*", which is effective for the accounting period commencing from 1 April 2019, together with the relevant transitional provisions, have been early adopted and consistently applied by the Group in the preparation of the Historical Financial Information throughout the Track Record Period and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[4]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[3]
Amendment to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[3]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16[3]
Amendment to HKFRS 16	*COVID-19 Related Rent Concessions*[1]
Amendments to HKFRS 4	*Extension of the Temporary Exemption from Applying HKFRS 9*[4]
Amendment to HKFRS 17	*Insurance Contract*[4]
Amendments to HKAS 39	*Financial Instruments: Recognition and Measurement*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[2]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 No mandatory effective date yet determined but available for adoption

The adoption of the new and revised HKFRSs is not expected to have a significant financial effect on the financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Shorter of estimated useful lives and remaining lease terms
Plant and machinery	15%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each of the financial years.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	5 years
Motor vehicles	4 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expenses on a straight-line basis over the lease term.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primary derecognised (i.e., removed from the Group's combined statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group measures loss allowance under ECL model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and retention payables, financial liabilities included in accruals and other payables, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the financial years and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the financial years and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the memorandum, articles of association and bye-laws of the relevant companies grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Government grants

Government grants are recognised as their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information.

Revenue recognition for construction services

For the years ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2020, the Group recognised revenue from construction contracting businesses amounting to HK$170,225,000, HK$272,916,000, HK$404,825,000 and HK$221,235,000, respectively. The Group has recognised revenue from the provision of construction services over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total contract costs incurred and forecasts in relation to costs to complete.

Principal versus agent consideration in revenue recognition

In determining whether the Group is acting as a principal or as an agent in the provision of the construction services requires judgement and consideration of all relevant facts and circumstances. The Group is acting as a principal if it controls a promised service before transferring that service to the customer and reports revenue on the gross inflows of economic benefits. In evaluation of the Group acting as a principal, the Group considers whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified service; (ii) has inventory risk before the specified service has been transferred to a customer or after the transfer of control to the customer; and (iii) has discretion in establishing the price for the specified service. Conversely, the Group is an agent when it does not control a promised service before transferring that service to the customer and reports revenue on the net inflows of economic benefits (that is, net of the amounts collected on behalf of the principal). Having considered the relevant facts and circumstances, the directors has determined that the Group is the principal for the construction services under construction contracts to the extent the construction services are provided by the Group, and the related revenue is reported on a gross basis.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables and contract assets

The Group measures loss allowance under the ECL model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. As at 31 March 2018, 2019 and 2020 and 31 August 2020, the carrying amount of trade receivables were HK$889,000, HK$16,976,000, HK$10,397,000 and HK$14,685,000, net of impairment for trade receivables of nil, nil, nil and HK$168,000 respectively. As at 31 March 2018, 2019 and 2020 and 31 August 2020, the carrying amount of contract assets were HK$21,539,000, HK$26,795,000, HK$56,695,000 and HK$75,881,000, net of impairment for contract assets of nil, nil, nil and HK$1,341,000 respectively. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 17 and 16 respectively.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the construction segment under which the Group engages in contract work as a subcontractor. Accordingly, no segment information is presented.

Geographical information

(a) Revenue from external customers

No geographical information is presented as all of the Group's revenue from external customers was derived from customers located in Hong Kong during the Track Record Period.

(b) Non-current assets

No geographical information is presented as all of the Group's non-current assets were located in Hong Kong as at 31 March 2018, 2019 and 2020 and 31 August 2020.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period during the Track Record Period is set out below:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Customer A	112,688	187,314	221,827	55,184	78,770
Customer B	44,574	63,787	71,735	N/A*	83,768
Customer H	N/A*	N/A*	70,165	N/A*	N/A*

* Nil or less than 10% of the Group's revenue.

The revenue from the above major customers was all derived from the construction work.

6. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from contracts with customers					
Provision of construction services	170,225	272,916	404,825	74,918	221,235

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

	2018	2019	2020	2019	2020
Type of construction service provided					
Residential	133,854	222,527	345,615	71,240	163,675
Non-residential	36,371	50,389	59,210	3,678	57,560
Total revenue from contracts with customers	170,225	272,916	404,825	74,918	221,235
Private sector	170,225	262,798	388,146	73,190	185,214
Public sector	–	10,118	16,679	1,728	36,021
Total revenue from contracts with customers	170,225	272,916	404,825	74,918	221,235
Timing of revenue recognition					
Services transferred over time	170,225	272,916	404,825	74,918	221,235

The following table shows the amounts of revenue recognised in each of the Track Record Period that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 March			Five months ended 31 August	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period					
Construction services	5,431	4,463	16	16	176

(ii) ***Performance obligations***

Information about the Group's performance obligations is summarised below:

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 14 to 60 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The construction period varies from within 1 year to approximately 3 years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 March 2018, 2019 and 2020 and 31 August 2020 are as follows:

	As at 31 March			As at 31 August
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts expected to be recognised as revenue:				
Within one year	209,000	212,240	288,738	385,209
After one year	40,886	51,249	–	190,037
	249,886	263,489	288,738	575,246

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to construction services, of which the performance obligations are to be satisfied within approximately three years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Other income and gains					
Interest income	–	–	2	–	–
Rental income from leasing of machinery	152	–	22	12	211
Gain on disposal of items of property, plant and equipment	–	154	–	–	–
Others *(note)*	169	951	426	217	1,351
	321	1,105	450	229	1,562

Note: For the year ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2020, the government grants from the Employment Support Scheme ("ESS") of the Hong Kong Government of nil, nil, nil and HK$180,000 are included in "Others" disclosed above, respectively. The government grants from the ESS were for the purpose to retain employment and combat the COVID-19. As a condition of receiving the grants under the ESS, the Group has undertaken not to make redundancies of its Hong Kong employees from 1 June 2020 to 31 August 2020. There are no unfulfilled conditions or contingencies related to these grants.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 March			Five months ended 31 August	
		2018	2019	2020	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Cost of sales		150,746	239,692	352,608	65,375	192,712
Depreciation of property, plant and equipment#	14	4,975	5,746	6,964	2,583	3,132
Depreciation of right-of-use assets#	15	497	632	667	264	279
Lease payments not included in the measurement of lease liabilities#		1,778	613	3,411	172	1,805
Impairment of contract assets	16	–	–	–	–	1,341
Impairment of trade receivables	17	–	–	–	–	168
Employee benefit expense (excluding directors' remuneration *(note 9)*)#:						
Wages, salaries, allowances and benefits in kind		19,926	31,732	42,920	16,631	20,329
Pension scheme contributions		694	1,006	1,391	550	687
		20,620	32,738	44,311	17,181	21,016
Auditor's remuneration		35	35	41	17	17
[REDACTED]		–	–	**[REDACTED]**	–	**[REDACTED]**
(Gain)/loss on disposal of items of property, plant and equipment, net*		–	(154)	5	–	–

* These items are included in "Other income and gains" on the face of the combined statements of profit or loss and other comprehensive income.

\# For the years ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2019 and 2020, depreciation of property, plant and equipment of HK$4,965,000, HK$5,734,000, HK$6,958,000, HK$2,579,000 and HK$3,130,000, depreciation of right-of-use assets of HK$265,000, HK$265,000, HK$265,000, HK$97,000 and HK$111,000, lease payments not included in the measurement of lease liabilities of HK$1,778,000, HK$613,000, HK$3,411,000, HK$172,000 and HK$1,805,000 and employee benefit expense of HK$19,963,000, HK$31,849,000 and HK$43,051,000, HK$16,745,000 and HK$20,295,000 respectively, are included in cost of sales disclosed above.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on bank loans and overdrafts	133	144	156	64	16
Interest on lease liabilities	31	37	39	18	16
	164	181	195	82	32

9. DIRECTORS' REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time during the years ended 31 March 2018, 2019 and 2020 since the Company was only incorporated in the Cayman Islands on 20 May 2020.

Mr. Yip Kwong Cheung (葉廣祥) and Ms. Kwan Chui Ling (關翠玲) were appointed as executive directors of the Company on 20 May 2020. Subsequent to 31 August 2020, Ms. Cheng Shing Yan (鄭承欣), Mr. Wong Yiu Kit Ernest (黃耀傑) and Mr. Tang Sher Kin (鄧社堅) were appointed as independent non-executive directors of the Company on 19 February 2021.

Certain of the directors received remuneration from the subsidiary now comprising the Group for their appointment as directors or officers of that subsidiary. The remuneration of each of these directors as recorded in the financial statements of the subsidiary is set out below:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and benefits in kind	900	1,020	1,196	476	525
Pension scheme contributions	33	31	34	16	15
	933	1,051	1,230	492	540

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2018					
Executive directors:					
Mr. Yip Kwong Cheung	–	540	–	15	555
Ms. Kwan Chui Ling	–	360	–	18	378
	–	900	–	33	933

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2019					
Executive directors:					
Mr. Yip Kwong Cheung	–	650	–	13	663
Ms. Kwan Chui Ling	–	370	–	18	388
	–	1,020	–	31	1,051

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2020					
Executive directors:					
Mr. Yip Kwong Cheung	–	715	–	15	730
Ms. Kwan Chui Ling	–	481	–	19	500
	–	1,196	–	34	1,230

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Five months ended 31 August 2019 (Unaudited)					
Executive directors:					
Mr. Yip Kwong Cheung	–	275	–	8	283
Ms. Kwan Chui Ling	–	201	–	8	209
	–	476	–	16	492

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Five months ended 31 August 2020					
Executive directors:					
Mr. Yip Kwong Cheung	–	300	–	8	308
Ms. Kwan Chui Ling	–	225	–	7	232
	–	525	–	15	540

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

During the Track Record Period, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2019 and 2020 include 2, 2, 2, 2 and 2 directors of the Group, respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration of the three remaining highest paid employees who are neither a director nor chief executive for the Track Record Period are as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and benefits in kind	1,874	2,261	2,411	972	920
Pension scheme contributions	43	33	30	11	23
	1,917	2,294	2,441	983	943

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	2019	2020	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Nil to HK$1,000,000	3	3	3	3	3

During the Track Record Period, no remuneration was paid by the Group to any of the non-directors, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 March 2018, 2019 and 2020, and five months ended 31 August 2019 and 2020.

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current – Hong Kong					
Charge for the year/period	2,333	4,177	7,393	1,075	4,257
Deferred *(note 24)*	441	794	579	213	32
Total tax charge for the year/period	2,774	4,971	7,972	1,288	4,289

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax charge at the effective tax rate is as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before tax	16,815	30,127	46,380	7,807	18,629
Tax at the statutory tax rates at 16.5%	2,774	4,971	7,653	1,288	3,074
Income not subject to tax	–	–	–	–	(30)
Expenses not deductible for tax	–	–	319	–	1,245
Tax charge at the Group's effective tax rate	2,774	4,971	7,972	1,288	4,289

12. DIVIDEND

No dividend has been paid or declared by the Company since its date of incorporation.

The dividends declared by the Company's subsidiary to the then shareholders during the Track Record Period and the five months ended 31 August 2019 were as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interim dividend	–	–	9,000	–	–
Proposed final dividend	–	12,000	–	–	–
	–	12,000	9,000	–	–

The proposed final dividend for the year ended 31 March 2019 was approved by the board of directors of the Company's subsidiary on 8 November 2019 and was settled through the current accounts with a director.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Track Record Period and the five months ended 31 August 2019 is on a combined basis.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 March 2018						
At 1 April 2017:						
Cost	21	27,434	24	18	742	28,239
Accumulated depreciation	(10)	(11,948)	(14)	(14)	(556)	(12,542)
Net carrying amount	11	15,486	10	4	186	15,697
At 1 April 2018, net of accumulated depreciation	11	15,486	10	4	186	15,697
Additions	–	8,785	–	–	–	8,785
Depreciation provided during the year *(note 7)*	(4)	(4,779)	(5)	(1)	(186)	(4,975)
At 31 March 2018, net of accumulated depreciation	7	19,492	5	3	–	19,507
At 31 March 2018:						
Cost	21	36,219	24	18	742	37,024
Accumulated depreciation	(14)	(16,727)	(19)	(15)	(742)	(17,517)
Net carrying amount	7	19,492	5	3	–	19,507
31 March 2019						
At 1 April 2018:						
Cost	21	36,219	24	18	742	37,024
Accumulated depreciation	(14)	(16,727)	(19)	(15)	(742)	(17,517)
Net carrying amount	7	19,492	5	3	–	19,507
At 1 April 2018, net of accumulated depreciation	7	19,492	5	3	–	19,507
Additions	–	13,077	–	25	150	13,252
Disposal	(5)	(2,231)	–	–	–	(2,236)
Depreciation provided during the year *(note 7)*	(2)	(5,718)	(5)	(5)	(16)	(5,746)
At 31 March 2019, net of accumulated depreciation	–	24,620	–	23	134	24,777
At 31 March 2019:						
Cost	–	44,468	24	43	892	45,427
Accumulated depreciation	–	(19,848)	(24)	(20)	(758)	(20,650)
Net carrying amount	–	24,620	–	23	134	24,777

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 March 2020						
At 1 April 2019:						
Cost	–	44,468	24	43	892	45,427
Accumulated depreciation	–	(19,848)	(24)	(20)	(758)	(20,650)
Net carrying amount	–	24,620	–	23	134	24,777
At 1 April 2019, net of accumulated depreciation	–	24,620	–	23	134	24,777
Additions	–	12,140	–	–	–	12,140
Disposal	–	–	–	–	(106)	(106)
Depreciation provided during the year *(note 7)*	–	(6,930)	–	(6)	(28)	(6,964)
At 31 March 2020, net of accumulated depreciation	–	29,830	–	17	–	29,847
At 31 March 2020:						
Cost	–	56,608	–	43	–	56,651
Accumulated depreciation	–	(26,778)	–	(26)	–	(26,804)
Net carrying amount	–	29,830	–	17	–	29,847
31 August 2020						
At 1 April 2020:						
Cost	–	56,608	–	43	–	56,651
Accumulated depreciation	–	(26,778)	–	(26)	–	(26,804)
Net carrying amount	–	29,830	–	17	–	29,847
At 1 April 2020, net of accumulated depreciation	–	29,830	–	17	–	29,847
Additions	–	3,592	–	–	–	3,592
Depreciation provided during the period *(note 7)*	–	(3,130)	–	(2)	–	(3,132)
At 31 August 2020, net of accumulated depreciation	–	30,292	–	15	–	30,307
At 31 August 2020:						
Cost	–	60,200	–	43	–	60,243
Accumulated depreciation	–	(29,908)	–	(28)	–	(29,936)
Net carrying amount	–	30,292	–	15	–	30,307

15. LEASES

The Group as a lessee

The Group has lease contracts for office premises, various motor vehicles and machinery used in its operations. Leases of office properties and various motor vehicles generally have lease terms between 2 and 4 years. Machinery generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and movements during the Track Record Period are as follows:

	Office premises *HK\$'000*	**Motor vehicles** *HK\$'000*	**Total** *HK\$'000*
At 1 April 2017	425	290	715
Additions	–	637	637
Depreciation charged during the year *(note 7)*	(232)	(265)	(497)
At 31 March 2018 and 1 April 2018	193	662	855
Additions	1,207	–	1,207
Disposal	(77)	–	(77)
Depreciation charged during the year *(note 7)*	(367)	(265)	(632)
At 31 March 2019 and 1 April 2019	956	397	1,353
Additions	–	432	432
Depreciation charged during the year *(note 7)*	(402)	(265)	(667)
At 31 March 2020 and 1 April 2020	554	564	1,118
Depreciation charged during the period *(note 7)*	(168)	(111)	(279)
At 31 August 2020	386	453	839

(b) Lease liabilities

The carrying amounts of lease liabilities and movements during the Track Record Period are as follows:

	As at 31 March			As at 31 August
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at the beginning of the year/period	677	786	1,297	1,136
New leases	637	1,115	432	–
Accretion of interest recognised during the year/period *(note 8)*	31	37	39	16
Disposal	–	(77)	–	–
Payments	(559)	(564)	(632)	(268)
Carrying amount at the end of the year/period	786	1,297	1,136	884
Analysed into:				
Current portion	425	545	612	621
Non-current portion	361	752	524	263

Certain of the Group's lease liabilities were secured by a personal guarantee provided by Mr. Yip Kwong Cheung amounting to HK$400,000 as at 31 March 2018 and 2019. The personal guarantee was subsequently released during the year ended 31 March 2020.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on lease liabilities	31	37	39	18	16
Depreciation charge of right-of-use assets	497	632	667	264	279
Expense relating to short-term leases	1,778	613	3,411	172	1,805
	2,306	1,282	4,117	454	2,100

(d) The total cash outflows for leases are disclosed in note 27(c) to the financial statements.

16. CONTRACT ASSETS

		As at 31 March			As at 31 August
		2018	2019	2020	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets arising from construction services	(a)	7,399	2,320	17,559	31,688
Retention receivables	(b)	14,140	24,475	39,136	45,534
		21,539	26,795	56,695	77,222
Impairment	(c)	–	–	–	(1,341)
		21,539	26,795	56,695	75,881

Notes:

(a) Contract assets consist of the Group's rights to consideration for works completed but unbilled amounts resulting from construction contracts. The contract assets are transferred to trade receivables when the rights become unconditional which was generally within one to three months. The increase in contract assets throughout the Track Record Period was the result of the increase in the provision of construction services.

The expected timing of recovery or settlement for contract assets as at the end of the reporting period is as follows:

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	7,399	2,320	17,559	31,688

(b) Retention receivables withheld by contract customers arising from the Group's construction work are settled within a period ranging from one year to two years after the completion of the construction work and acceptance by customers, as stipulated in the construction contracts.

The expected timing of recovery or settlement for retention receivables as at the end of the reporting period is as follows:

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	4,787	3,200	7,419	6,461
More than one year	9,353	21,275	31,717	39,073
	14,140	24,475	39,136	45,534

(c) The movement in the loss allowance for impairment of contract assets is as follows:

	HK$'000
At 1 April 2020	–
Impairment losses	1,341
At 31 August 2020	1,341

An impairment analysis is performed at each reporting date using a probability of default model to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on historical data adjusted by forward looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As at 31 March 2018, 2019 and 2020, the expected credit loss rate for the Group's contract assets was considered minimal.

Set out below is the information about the credit risk exposure on the Group's contract assets as at 31 August 2020:

	As at 31 August 2020
Expected credit loss rate	1.74%
Gross carrying amount *(HK$'000)*	77,222
Expected credit losses *(HK$'000)*	1,341

17. TRADE RECEIVABLES

		As at 31 March		**As at 31 August**
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	889	16,976	10,397	14,853
Impairment	–	–	–	(168)
	889	16,976	10,397	14,685

The Group's credit periods with customers range from 14 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and has a policy to manage its risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each reporting period during the Track Record Period, based on the progress payment certificate date and net of allowance, is as follows:

		As at 31 March		**As at 31 August**
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	–	15,507	7,223	6,852
1 to 2 months	889	1,469	3,174	7,833
	889	16,976	10,397	14,685

The movement in the loss allowance for impairment of trade receivable is as follows:

	HK$'000
At 1 April 2020	–
Impairment losses	168
At 31 August 2020	168

An impairment analysis is performed at each reporting date using a probability of default model to measure expected credit losses. The provision rates are based on historical data adjusted by forward-looking information. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As at 31 March 2018, 2019 and 2020, the Group estimated that the expected loss rate for trade receivables was minimal.

Set out below is the information about the credit risk exposure on the Group's trade receivables as at 31 August 2020 using a provision matrix:

	As at 31 August 2020
Expected credit loss rate	1.13%
Gross carrying amount *(HK$'000)*	14,853
Expected credit losses *(HK$'000)*	168

18. PREPAYMENTS AND DEPOSITS

	As at 31 March			**As at 31 August**
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	–	–	1,739	4,716
Deposits	43	186	186	186
	43	186	1,925	4,902
Less: Non-current portion	–	(186)	(830)	(349)
	43	–	1,095	4,553

Prepayments and deposits mainly represent rental deposits, utility deposits and prepayments for **[REDACTED]**. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The expected credit loss rate for the Group's financial assets included in prepayments and deposits is minimal.

The financial assets included in the above balances relate to receivables for which there was no recent history of past due amounts.

19. BALANCES WITH A DIRECTOR

The Group's balances with a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Amounts due from/(to) a director

	As at 1 April 2017	Maximum amount outstanding during the year	As at 31 March 2018 and 1 April 2018	Maximum amount outstanding during the year	As at 31 March 2019 and 1 April 2019	Maximum amount outstanding during the year	As at 31 March 2020	Maximum amount outstanding during the period	As at 31 August 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yip Kwong Cheung	(3,930)	20,709	15,967	18,395	18,395	18,395	7	7	–

The Group has applied the general approach to provide for expected credit losses for the amount due from a director. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. The Group has classified the amount due from a director in stage 1 and continuously monitors its credit risk. As at 31 March 2018, 2019 and 2020, the Group estimated that the expected loss rate for the amount due from a director is minimal.

The balances with the director are unsecured, interest-free, repayable on demand and of non-trade nature.

20. CASH AND CASH EQUIVALENTS

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	2,197	3,696	15,052	8,321

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND RETENTION PAYABLES

		As at 31 March			As at 31 August
		2018	2019	2020	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	(a)	6,084	17,463	16,060	21,693
Retention payables	(b)	846	1,292	2,765	3,935
		6,930	18,755	18,825	25,628

Notes:

(a) An ageing analysis of the trade payables, based on the invoice date, at the end of each reporting period during the Track Record Period, is as follows:

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	6,084	17,463	16,060	21,693

The trade payables are non-interest-bearing and are normally settled within one month.

(b) Retention payables held by the Group arose from the Group's construction works and are normally settled to subcontractors within a period ranging from one year to two years after the completion of the contract work by the subcontractors, as stipulated in the subcontracting contracts.

22. ACCRUALS AND OTHER PAYABLES

		As at 31 March			As at 31 August
		2018	2019	2020	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accruals		222	756	3,049	1,934
Contract liabilities	(a)	4,463	16	176	56
Provision for reinstatement	(b)	–	92	92	92
		4,685	864	3,317	2,082
Less: Non-current portion		–	(92)	(92)	–
Current portion		4,685	772	3,225	2,082

Notes:

(a) Details of contract liabilities are as follows:

	As at 31 March			As at 31 August
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract liabilities arising from:				
Construction services	4,463	16	176	56

The excess of cumulative billings for construction work over the cumulative work revenue recognised in profit or loss is recognised as contract liabilities. The increase/decrease in contract liabilities as at 31 March 2018, 2019 and 2020 and 31 August 2020 was the result of the increase/decrease in the receipts from customers near the end of the year/period.

(b) The movement in the provision for reinstatement during the Track Record Period is as follows:

	Provision for reinstatement
	HK$'000
At 1 April 2017, 31 March 2018 and 1 April 2018	–
Addition during the year *(note 27(a))*	92
At 31 March 2019, 1 April 2019, 31 March 2020, 1 April 2020 and 31 August 2020	92

Pursuant to the terms of the respective tenancy agreements entered into by the Group, the Group is required to return its leased properties to the conditions as stipulated in the tenancy agreements at the expiration of the corresponding lease term as appropriate. The provision for reinstatement costs was estimated based on certain assumptions and estimates made by the Group's management with reference to quoted prices and/or other available information. The assumptions and estimates are reviewed on an ongoing basis and revised as appropriate.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 March									As at 31 August		
	2018			2019			2020			2020		
	Effective interest rate per annum	Maturity	*HK$'000*	Effective interest rate per annum	Maturity	*HK$'000*	Effective interest rate per annum	Maturity	*HK$'000*	Effective interest rate per annum	Maturity	*HK$'000*
Current												
Bank loan – secured *(note (a))*	3.5%	On demand	3,000	4.4%	On demand	3,000	5.2%	On demand	3,000	–	–	–
Bank overdrafts – secured *(note (a))*	2.5%	On demand	4,417	–	–	–	–	–	–	–	–	–
			7,417			3,000			3,000			–

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed into:				
Bank loan and overdrafts repayable:				
On demand	7,417	3,000	3,000	–

Notes:

(a) The Group's bank loan and overdrafts are secured by:

(i) the legal charge over properties provided by a related company, Fortune Dragon Investment (HK) Limited ("Fortune Dragon") which is held by the director, Mr. Yip Kwong Cheung and Mr. Yip Siu Lung, the nephew of Mr. Yip Kwong Cheung as at 31 March 2018 and held by Mr. Yip Siu Lung and Ms. Yip Wing Wai, the daughter of Mr. Yip Kwong Cheung as at 31 March 2019 and 2020; and

(ii) the personal guarantees from Mr. Yip Kwong Cheung, Ms. Kwan Chui Ling and Mr. Yip Siu Lung.

The pledged property and the personal guarantees in relation to the Group's secured bank borrowing have been released upon repayment of the bank borrowing in May 2020.

(b) As at 31 August 2020, the Group's bank facilities amounting to HK$21,800,000, which had not been utilised, are secured by (i) the property owned by Ms. Kwan Chui Ling and (ii) personal guarantees from Mr. Yip Kwong Cheung and Ms. Kwan Chui Ling. In the opinion of the Directors, the pledge and guarantees provided by related parties are expected to be released upon **[REDACTED]**.

(c) All bank loans were denominated in Hong Kong dollars.

24. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the Track Record Period are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation *HK$'000*
At 1 April 2017	1,902
Deferred tax charged to the combined statement of profit or loss and other comprehensive income during the year *(note 11)*	441
At 31 March 2018 and 1 April 2018	2,343
Deferred tax charged to the combined statement of profit or loss and other comprehensive income during the year *(note 11)*	794
At 31 March 2019 and 1 April 2019	3,137
Deferred tax charged to the combined statement of profit or loss and other comprehensive income during the year *(note 11)*	579
At 31 March 2020 and 1 April 2020	3,716
Deferred tax charged to the combined statement of profit or loss and other comprehensive income during the period *(note 11)*	281
At 31 August 2020	3,997

Deferred tax assets

	Impairment of trade receivables and contract assets *HK$'000*
At 1 April 2017, 31 March 2018, 31 March 2019 and 31 March 2020 and 1 April 2020	–
Deferred tax credited to the combined statement of profit or loss and other comprehensive income during the period *(note 11)*	249
At 31 August 2020	249

For presentation purposes, certain deferred tax assets and liabilities have been offset in the combined statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 March			**As at 31 August**
	2018 *HK$'000*	**2019** *HK$'000*	**2020** *HK$'000*	**2020** *HK$'000*
Net deferred tax liabilities recognised in the combined statement of financial position	2,343	3,137	3,716	3,748

There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

	31 August 2020
	HK$'000
Authorised:	
38,000,000 shares at par value of HK$0.01 each	380
Issued and fully paid:	
1 ordinary share	–*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		HK$'000
At 20 May 2020 (date of incorporation)	–	–
Issue of a new share upon incorporation of the Company	1	–*
At 31 August 2020	1	–*

* *Less than a thousand Hong Kong dollars.*

Note: The Company was incorporated on 20 May 2020 with an initial authorised share capital of HK$380,000 divided into 38,000,000 shares at par value of HK$0.01 each.

There was no authorised and issued capital as at 31 March 2018, 2019 and 2020 since the Company has not yet been incorporated by that time.

26. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for each reporting period during the Track Record Period are presented in the combined statements of changes in equity.

27. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 March 2019, the provision for reinstatement costs of HK$92,000 was included in additions of right-of-use assets (note 15).

During the year ended 31 March 2020, final 2019 dividends declared of HK$12,000,000 and interim 2020 dividend of HK$9,000,000, respectively, were settled through the current accounts with a director.

During the year ended 31 March 2019, the consideration of HK$1,240,000 for the acquisition of an item of property, plant and equipment was satisfied by disposal of an item of property, plant and equipment by a trade-in arrangement.

During the five months ended 31 August 2020, the consideration of HK$481,000 for the acquisition of an item of property, plant and equipment was satisfied by a prepayment made in the prior years.

(b) Changes in liabilities arising from financing activities

	Due to a director *HK$'000*	Lease liabilities *HK$'000*	Interest-bearing bank and other borrowings *HK$'000*
At 1 April 2017	3,930	677	3,000
Changes from financing cash flows	(3,930)	(528)	–
Lease commencement recognition	–	637	–
Interest expenses	–	31	–
Interest paid classified as operating cash flows	–	(31)	–
At 31 March 2018 and 1 April 2018	–	786	3,000
Changes from financing cash flows	–	(527)	–
Lease commencement recognition	–	1,115	–
Early termination of a lease	–	(77)	–
Interest expenses	–	37	–
Interest paid classified as operating cash flows	–	(37)	–
At 31 March 2019 and 1 April 2019	–	1,297	3,000
Changes from financing cash flows	–	(593)	–
Lease commencement recognition	–	432	–
Interest expenses	–	39	–
Interest paid classified as operating cash flows	–	(39)	–
At 31 March 2020 and 1 April 2020	–	1,136	3,000
Changes from financing cash flows	–	(252)	(3,000)
Interest expenses	–	16	–
Interest paid classified as operating cash flows	–	(16)	–
At 31 August 2020	–	884	–
At 1 April 2019	–	1,297	3,000
Changes from financing cash flows	–	(252)	–
Interest expenses	–	18	–
Interest paid classified as operating cash flows	–	(18)	–
At 31 August 2019 (unaudited)	–	1,045	3,000

(c) Total cash outflow for leases

The total cash outflow for leases included on the statement of cash flow is as follows:

	Year ended 31 March			Five months ended 31 August	
	2018	**2019**	**2020**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within operating activities	1,809	650	3,450	190	1,821
Within financing activities	528	527	593	252	252
	2,337	1,177	4,043	442	2,073

28. COMMITMENTS

At the end of the Track Record Period, the Group had the following capital commitments:

	As at 31 March			As at 31 August
	2018	**2019**	**2020**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not provided for:				
Property, plant and machinery	–	–	5,796	3,141

29. CONTINGENT LIABILITIES

At 31 March 2018, 2019 and 2020, the Group provided a corporate guarantee in relation to a bank facility granted to a related company, Fortune Dragon, and the bank facility was utilised in amounts of HK$8,268,000, HK$7,922,000 and HK$7,594,000 by Fortune Dragon respectively. The Group does not hold any collateral or other credit enhancements over the guarantee. On 2 June 2020, the Group and the bank entered into an agreement to release the corporate guarantee in relation to the bank facility granted to Fortune Dragon.

At 31 March 2018, 2019 and 2020, the Group provided a corporate guarantee in relation to a bank facility granted to Ms. Yip Wing Wai and the bank facility was utilised in amounts of HK$3,805,000, HK$3,698,000 and HK$3,589,000 by Ms. Yip Wing Wai respectively. The Group does not hold any collateral or other credit enhancements over the guarantee. On 2 June 2020, the Group and the bank entered into an agreement to release the corporate guarantee in relation to the bank facility granted to Ms. Yip Wing Wai.

As at the end of each reporting period, the Group has been involved in a number of claims, litigations and potential claims against the Group in relation to work-related injuries and non-compliances, details of which are disclosed in the section "Business – Litigation and potential claims" in the Document. The directors of the company are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

30. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with directors

Details of the Group's balances with a director as at 31 March 2018, 2019 and 2020 and 31 August 2020 are disclosed in note 19.

(b) Other transactions with related parties

Certain guarantees were given by Mr. Yip Kwong Cheung and Ms. Kwan Chui Ling in favour of the banks in respect of banking facilities and lease arrangement granted to the Group. Further details of the transactions are included in note 15(b) and note 23(a) to the Historical Financial Information.

The Group provided corporate guarantees to a related company of HK$8,268,000, HK$7,922,000 and HK$7,594,000 and to Ms. Yip Wing Wai of HK$3,805,000, HK$3,698,000 and HK$3,589,000 as at 31 March 2018, 2019 and 2020, respectively. On 2 June 2020, the Group and the bank entered into an agreement to release the corporate guarantee in relation to the bank facility granted to a related company and Ms. Yip Wing Wai. Further details of the transactions are included in note 29 to the Historical Financial Information.

During the year ended 31 March 2018, the Group has also guaranteed a facility granted to a related company, Kwong Luen Development (Hong Kong) Limited and the guarantee has been released as at 31 March 2018. Kwong Luen Development (Hong Kong) Limited was held by Mr. Yip Kwong Cheung and Ms. Kwan Chui Ling during the Track Record Period and it was deregistered on 29 December 2019.

(c) Compensation of key management personnel of the Group

The compensation of key management personnel of the Group for each of the reporting periods during the Track Record Period represented the directors' emoluments as disclosed in note 9 to the Historical Financial Information.

31. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at the end of each of the reporting periods during the Track Record Period are financial assets and financial liabilities at amortised cost, respectively.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of trade receivables, cash and cash equivalents, balances with a director, financial assets included in prepayments and deposits, trade and retention payables, financial liabilities included in accruals and other payables, interest-bearing bank and other borrowings and guarantees given to banks in connection with facilities granted to related companies and Ms. Yip Wing Wai approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of non-current deposits and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and were assessed to be approximate to their carrying amounts.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and cash equivalents, trade receivables, deposits, balances with a director, trade and retention payables, accruals and other payables, interest-bearing bank and other borrowings and lease liabilities.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 23 to the Historical Financial Information. The Group's policy is to obtain the most favourable interest rates available for its borrowings. Management monitors interest rate exposure and will consider hedging significant interest rate exposures should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates at the end of the reporting period, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *HK$'000*
As at 31 March 2018		
Hong Kong dollar	100	(25)
Hong Kong dollar	(100)	25
As at 31 March 2019		
Hong Kong dollar	100	(25)
Hong Kong dollar	(100)	25
As at 31 March 2020		
Hong Kong dollar	100	(25)
Hong Kong dollar	(100)	25
As at 31 August 2020		
Hong Kong dollar	100	–
Hong Kong dollar	(100)	–

The change in interest rates at the end of the reporting periods, with all other variables held constant, has no impact to the Group's equity excluding retained profits for the years ended 31 March 2018, 2019 and 2020 and the five months ended 31 August 2020.

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, contract assets and financial assets included in prepayments and deposits and an amount due from a director, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Historical Financial Information.

The Group has applied the simplified approach to providing for impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information.

All the current portions of the other receivable balances are expected to be recovered or recognised within one year.

Maximum exposure and year/period-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification as at 31 March 2018, 2019 and 2020. The amounts presented are the gross carrying amounts for financial assets.

	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2018					
Contract assets*	–	–	–	21,539	21,539
Trade receivables*	–	–	–	889	889
Financial assets included in prepayments and deposits					
– Normal**	43	–	–	–	43
Due from a director					
– Not yet past due	15,967	–	–	–	15,967
Cash and cash equivalents					
– Not yet past due	2,197	–	–	–	2,197
	18,207	–	–	22,428	40,635

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2019					
Contract assets*	–	–	–	26,795	26,795
Trade receivables*	–	–	–	16,976	16,976
Financial assets included in prepayments and deposits					
– Normal**	186	–	–	–	186
Due from directors					
– Not yet past due	18,395	–	–	–	18,395
Cash and cash equivalents					
– Not yet past due	3,696	–	–	–	3,696
	22,277	–	–	43,771	66,048

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2020					
Contract assets*	–	–	–	56,695	56,695
Trade receivables*	–	–	–	10,397	10,397
Financial assets included in prepayments and deposits	–	–	–	–	–
– Normal**	186	–	–	–	186
Due from a director					
– Not yet past due	7	–	–	–	7
Cash and cash equivalents					
– Not yet past due	15,052	–	–	–	15,052
	15,245	–	–	67,092	82,337

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 August 2020					
Contract assets*	–	–	–	77,222	77,222
Trade receivables*	–	–	–	14,853	14,853
Financial assets included in prepayments and deposits					
– Normal**	186	–	–	–	186
Cash and cash equivalents					
– Not yet past due	8,321	–	–	–	8,321
	8,507	–	–	92,075	100,582

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the probability of default is disclosed in notes 16 and 17 to the Historical Financial Information, respectively.

** The credit quality of the financial assets included in prepayments and deposits is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Credit risk concentration

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group had certain concentrations of credit risk as the trade receivables in terms of the following percentages were due from the Group's largest external customer and the Group's five largest external customers out of the Group's total trade receivables:

	As at 31 March			As at 31 August
	2018	2019	2020	2020
	%	%	%	%
Due from the Group's largest external customer	–	17	–	2
Due from the Group's five largest external customers	100	93	69	100

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings and funds generated from operations.

The maturity profile of the Group's financial liabilities as at the end of each reporting period during the Track Record Period, based on the contractual and undiscounted payments, is as follows:

	On demand	Less than 1 year	More than 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2018				
Trade and retention payables	6,930	–	–	6,930
Financial liabilities included in accruals and other payables	121	–	–	121
Interest-bearing bank and other borrowings	7,632	–	–	7,632
Lease liabilities	–	438	362	800
Guarantees given to banks in connection with facilities granted to related companies and Ms. Yip Wing Wai	12,073	–	–	12,073
	26,756	438	362	27,556

	On demand	Less than 1 year	More than 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2019				
Trade and retention payables	18,755	–	–	18,755
Financial liabilities included in accruals and other payables	180	–	–	180
Interest-bearing bank and other borrowings	3,132	–	–	3,132
Lease liabilities	–	582	772	1,354
Guarantees given to banks in connection with facilities granted to related companies and Ms. Yip Wing Wai	11,620	–	–	11,620
	33,687	582	772	35,041

	On demand	Less than 1 year	More than 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2020				
Trade and retention payables	18,825	–	–	18,825
Financial liabilities included in accruals and other payables	2,283	–	–	2,283
Interest-bearing bank and other borrowings	3,156	–	–	3,156
Lease liabilities	–	644	545	1,189
Guarantees given to banks in connection with facilities granted to related companies and Ms. Yip Wing Wai	11,183	–	–	11,183
	35,447	644	545	36,636

	On demand	Less than 1 year	More than 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 August 2020				
Trade and retention payables	25,628	–	–	25,628
Financial liabilities included in accruals and other payables	873	–	–	873
Lease liabilities	–	644	276	920
	26,501	644	276	27,421

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholder or return capital to the shareholder. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

34. EVENTS AFTER THE TRACK RECORD PERIOD

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") in the People's Republic of China, has impacted the business environment in Hong Kong. Up to the date of this accountant's report, COVID-19 has not resulted in a material impact to the operating activities of the Group and there was no material delay in the schedule of the Group's construction projects. Pending on the development and spread of COVID-19 subsequent to the date of this accountants' report, further changes in the economic conditions for the Group arising thereof may have an impact on the financial results of the Group, the extent of which could not be estimated up to the date of this accountants' report. The Group will give continuous attention to the situation of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2020.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 May 2020 under the Cayman Companies Law. The Company's constitutional documents consist of its amended and restated memorandum of association (the "**Memorandum**") and its amended and restated articles of association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution, the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 19 February 2021 and effective on the **[REDACTED]**. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the

Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be reimbursed all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as the Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other provisions of the Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the **[REDACTED]** or **[REDACTED]** of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is **[REDACTED]** on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 20 May 2020 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

The undertaking for the Company is for a period of 30 years from 8 June 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 May 2020. Our Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 3 July 2020, and establishes a principal place of business in Hong Kong at Unit 2515, 25/F, The Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong. Mr. Yip and Mr. Wong Ho Cheung have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the Companies Law and to the constitution which comprises the Memorandum and the Articles. A summary of various provisions of the constitution and relevant aspects of the Companies Law is set out in Appendix III to this document.

2. Changes in share capital of our Company

(a) As at the date of incorporation, our Company had an authorised share capital of HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each. One Share was allotted and issued nil-paid to the initial subscriber on 20 May 2020, and was subsequently transferred to Kwong Luen Prosperity as fully paid on the same day.

(b) On 19 February 2021, our sole Shareholder resolved to increase the authorised share capital of our Company from HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each to HK$**[REDACTED]** divided into **[REDACTED]** Shares of par value of HK$0.01 each by the creation of an additional of **[REDACTED]** Shares of par value of HK$0.01 each, each ranking *pari passu* with the Shares then in issue in all respects.

(c) Immediately following completion of the **[REDACTED]** and the **[REDACTED]**, and taking no account of any Share which may be issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme, **[REDACTED]** Shares will be issued fully paid or credited as fully paid, and **[REDACTED]** Shares will remain unissued.

(d) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "A. Further information about our Company – 3. Written resolutions of our sole Shareholder passed on 19 February 2021" in this appendix and pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(e) Save as disclosed in this document, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our sole Shareholder passed on 19 February 2021

On 19 February 2021, resolutions in writing were passed by our sole Shareholder pursuant to which, among other things:

(a) our Company approved and adopted the Memorandum and the Articles, the material terms of which are summarised in Appendix III to this document;

(b) with immediate effect, the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each to HK$**[REDACTED]** divided into **[REDACTED]** Shares of par value of HK$0.01 each by the creation of an additional of **[REDACTED]** Shares of par value of HK$0.01 each, each ranking *pari passu* with our Shares then in issue in all respects;

(c) conditional on the **[REDACTED]** granting the **[REDACTED]** of, and permission to deal in, our Shares in issue and to be issued as mentioned in this document (including any Shares to be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme) and on the obligations of the **[REDACTED]** under the **[REDACTED]** becoming unconditional and the **[REDACTED]** not being terminated in accordance with its terms or otherwise, in each case on or before the date falling 30 days after the date of this document:

(i) the **[REDACTED]** and the grant of the **[REDACTED]** by our Company were approved and our Directors were authorised to allot and issue the **[REDACTED]** pursuant to the **[REDACTED]** and such number of Shares as may be required to be allotted and issued upon the exercise of the **[REDACTED]** to rank *pari passu* with the then existing Shares in all respects;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in "D. Share Option Scheme" below in this appendix, were approved and adopted and our Directors were authorised to approve any amendments to the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange and our Directors were authorised, at their absolute discretion but subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

(iii) conditional further on the share premium account of our Company being credited as a result of the **[REDACTED]** or otherwise having sufficient balance, the **[REDACTED]** was approved, and our Directors were authorised to capitalise an amount of HK$**[REDACTED]** standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par **[REDACTED]** Shares for allotment and issue to the person(s) whose names appear on the register of members of our Company at the close of business on 19 February 2021 (or as they may direct) in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such **[REDACTED]** and distributions;

(d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or the exercise of the **[REDACTED]** or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the **[REDACTED]**, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities, and to make or grant offers, agreements or options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the total number of Shares in issue immediately following completion of the **[REDACTED]** and the **[REDACTED]** but excluding any Shares to be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;

(e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be **[REDACTED]** and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate number of Shares in issue immediately following completion of the **[REDACTED]** and the **[REDACTED]** but excluding any Shares to be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and

(f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue immediately following completion of the **[REDACTED]** and the **[REDACTED]** but excluding any Shares to be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme.

4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the **[REDACTED]** pursuant to which our Company became the holding company of our Group. For information relating to the Reorganisation, please refer to the section headed "History, Reorganisation and Corporate Structure" in this document.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report of our Company, the text of which is set out in Appendix I to this document.

Save as disclosed in the paragraph headed "A. Further Information about our Company – 4. Corporate reorganisation" in this appendix and the section headed "History, Reorganisation and Corporate Structure" in this document, there has been no alteration in the share capital of any of the subsidiaries of our Company within two years immediately preceding the date of this document.

6. Repurchase of Shares by our Company

This section contains information required by the Stock Exchange to be included in this document concerning the repurchase of Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our sole Shareholder on 19 February 2021, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be **[REDACTED]** and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the aggregate number of Shares in issue immediately following completion of the **[REDACTED]** and the **[REDACTED]** but excluding any Shares to be issued pursuant to the exercise of the **[REDACTED]** or any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Repurchase must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits or out of the **[REDACTED]** of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "core connected person" (as defined in the Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of our subsidiaries or a close associate (as defined in the Listing Rules) of any of them, and a core connected person shall not knowingly sell Shares to our Company.

(b) Exercise of the Repurchase Mandate

On the basis of **[REDACTED]** Shares in issue immediately after completion of the **[REDACTED]** and the **[REDACTED]** (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme), our Directors would be authorised under the Repurchase Mandate to repurchase up to **[REDACTED]** Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their close associates, has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable law and regulations from time to in force in the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the **[REDACTED]** of our Shares pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below **[REDACTED]**% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within two years preceding the date of this document and are or may be material in relation to the business of our Company taken as a whole:

(a) a sale and purchase agreement dated 4 June 2020 entered into, among others, by Mr. Yip, Ms. Kwan and Kwong Luen Success, pursuant to which Kwong Luen Success agreed to acquire one ordinary share and one ordinary share in Kwong Luen Engineering from Mr. Yip and Ms. Kwan, at a consideration of HK$50 and HK$50 respectively and was satisfied by Kwong Luen Prosperity allotted and issued one and one new shares in Kwong Luen Prosperity, credited as fully paid at par, to Mr. Yip and Ms. Kwan, respectively;

(b) a share purchase agreement dated 17 February 2021 entered into by our Company and Kwong Luen Prosperity pursuant to which our Company agreed to acquire one share of Kwong Luen Success, representing the entire issued share of Kwong Luen Success, from Kwong Luen Prosperity at a consideration of HK$100;

(c) the Deed of Non-competition;

(d) the Deed of Indemnity; and

(e) the **[REDACTED]**.

2. Intellectual property rights of our Group

(a) Trademark

As at the Latest Practicable Date, our Group had registered the following trademark (in both (i) colour and (ii) black and white versions) which we believe to be material to our business:

Trademark	Class	Registration number	Place of registration	Registered owner	Duration of validity
(A) (B)	37	305277286	Hong Kong	Kwong Luen Success	19 May 2020 to 18 May 2030

(b) Domain name

As at the Latest Practicable Date, our Group was the registered owner of the following domain name which is material to the business of our Group:

Domain name	Expiry Date
kwong-luen.com.hk	9 July 2021

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

1. Disclosure of Interests

(a) Interests of Directors and chief executive of our Company in Shares, underlying Shares and debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following completion of the **[REDACTED]** and the **[REDACTED]** but taking no account of any Share which may be issued pursuant to the exercise of the **[REDACTED]** Options and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are

[REDACTED] on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are **[REDACTED]** on the Stock Exchange, will be as follows:

(i) Long position in our Shares

Name	Capacity/ nature of interest	Number of Shares held/interested immediately following completion of the [REDACTED] and the [REDACTED]	Percentage of shareholding immediately following completion of the [REDACTED] and the [REDACTED]
Mr. Yip	Interest of a controlled corporation *(Note 1)* Interest held jointly with another person *(Note 1)* Interest of spouse *(Note 2)*	**[REDACTED]**	**[REDACTED]**%
Ms. Kwan	Interest of a controlled Corporation *(Note 1)* Interest held jointly with another person *(Note 1)* Interest of spouse *(Note 2)*	**[REDACTED]**	**[REDACTED]**%

Notes:

1. Kwong Luen Prosperity holding **[REDACTED]** Shares is beneficially owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. By virtue of the SFO, Mr. Yip and Ms. Kwan are deemed to be interested in the shares held by Kwong Luen Prosperity.

2. Ms. Kwan is the spouse of Mr. Yip. Accordingly, each of them is deemed or taken to be interested in all the Shares which the other is interested for the purpose of the SFO.

(ii) Long position in the share of associated corporations

Name of Director	**Name of associated corporation**	**Capacity/ nature of interest**	**Number of share(s) held/ interested in the associated corporation**	**Percentage of shareholding**
Mr. Yip	Kwong Luen Prosperity	Beneficial owner	Two	50%
Ms. Kwan	Kwong Luen Prosperity	Beneficial owner	Two	50%

(b) Interests of substantial and other Shareholders in our Shares and underlying Shares

So far as is known to our Directors and taking no account of any Share which may be issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the **[REDACTED]** and the **[REDACTED]**, have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Long position in our Shares

Name	**Capacity/ nature of interest**	**Number of Shares held/ interested immediately following completion of the [REDACTED] and the [REDACTED]**	**Percentage of shareholding immediately following completion of the [REDACTED] and the [REDACTED]**
Kwong Luen Prosperity	Beneficial owner *(Note)*	**[REDACTED]**	**[REDACTED]**%

Note: Kwong Luen Prosperity is beneficially owned as to 50% and 50% by Mr. Yip and Ms. Kwan respectively. By virtue of the SFO, Mr. Yip and Ms. Kwan are deemed to be interested in the shares held by Kwong Luen Prosperity.

2. Particulars of service agreements and letters of appointment

Each of our Directors has entered into a service agreement (in the case of executive Directors) or a letter of appointment (in the case of independent non-executive Directors) with our Company for a term of three years commencing from the **[REDACTED]**, which may be terminated by not less than six months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

3. Remuneration of Directors

The aggregate amount of remuneration paid by our Group to our Directors for FY2017/18, FY2018/19, FY2019/20 and the five months ended 31 August 2020 were approximately HK$0.9 million, HK$1.1 million, HK$1.2 million and HK$0.5 million, respectively.

Under the arrangements currently in force as at the date of this document, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors (including the independent non-executive Directors) for the year ending 31 March 2021 will be approximately HK$1.7 million.

Save as disclosed above, no other payments had been made or were payable any member of our Group to any of our Directors during the Track Record Period.

4. Agency fees or commissions received

Save as disclosed in the section headed "**[REDACTED]** – Commissions and expenses" in this document, and in the paragraph headed "E. Other information – 3. Sponsor" in this appendix, none of our Directors or the experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix had received any agency fee, commissions, discounts, brokerages, or other special terms in connection with the issue of any Share from our Group within two years preceding the date of this document.

5. Related party transactions

Details of the related party transactions during the Track Record Period are set out under note 30 to the Accountants' Report set out in Appendix I to this document.

6. Disclaimers

Save as disclosed in this document:

(a) taking no account of Shares which may be taken up under the **[REDACTED]**, and Shares which may be issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the **[REDACTED]** and the **[REDACTED]**, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(b) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are **[REDACTED]** on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange;

(c) none of our Directors or the experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of the Directors or the experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

(e) none of the Directors or the experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(f) so far as is known to our Directors, none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group;

(g) save as disclosed in the paragraph headed "B. Further information about our business – 2. Particulars of service agreements and letters of appointment" in this appendix, none of our Directors has entered or has proposed to enter into any service agreements or letters of appointment with our Company or any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(h) save as disclosed in this document, no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 19 February 2021. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be part of the Share Option Scheme, nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) The purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to reward the Participants who have contributed or will contribute to our Group and to encourage Participants to work towards enhancing the value of our Company and the Shares for the benefit of our Company and Shareholders as a whole, and to maintain or attract business relationships with the Participants whose contributions are or may be beneficial to the growth of our Group.

For the purpose of the Share Option Scheme, "**Participants**" means any person who satisfied the eligibility criteria in paragraph (b) below.

(b) Who may join

Our Board may, at any time during the period for which the Share Option Scheme is valid and effective, make an offer for options to:

(i) any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of our Group; and

(ii) any advisers, consultants, distributors, contractors, subcontractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of our Group,

who our Board considers, in its sole discretion, have contributed or will contribute to our Group.

(c) Grant of option

An offer of the grant of an option shall be made to the Participants by letter in such form as our Board may from time to time determine, requiring the Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for acceptance by the Participant concerned for a period to be notified in the offer letter provided that the offer shall no longer be open for acceptance after expiry of the Option Period (as defined below), after the Share Option Scheme has been terminated or after the Participant concerned has ceased to be a Participant. An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is treated as granted as from the date on which it was offered to the relevant Participant.

(d) Payment on acceptance of option offer

HK$1.00 is payable by the Participant to our Company on acceptance of the option offer as consideration for the grant.

(e) Subscription price

The subscription price ("**Subscription Price**") shall, subject to any adjustment pursuant to paragraph (n) below, be a price determined by our Board but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Participant ("**[REDACTED]**"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the **[REDACTED]**; and (iii) the nominal value of the Shares.

(f) Maximum number of Shares

(i) Scheme mandate

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the date upon which the Share Option Scheme takes effect, which shall be deemed to fall on the date on which the Shares first commence trading on the Stock Exchange ("**Scheme Mandate**"), which is expected to be **[REDACTED]** Shares. For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

(ii) Refreshment of the Scheme Mandate

Our Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company under the Scheme Mandate as refreshed must not exceed 10% of the total number of Shares in issue as at the date of Shareholders' approval. For the foregoing purpose, options previously granted under the Share Option Scheme and any other share option schemes of our Company, whether outstanding, cancelled or lapsed in accordance with its applicable rules or already exercised, will not be counted.

(iii) Grant of options beyond Scheme Mandate

Our Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to the Participants who are specifically identified before such approval is sought. A circular is required to be sent by our Company to the Shareholders in accordance with the Listing Rules in connection with such grant.

(iv) Maximum number of Shares issued pursuant to Options

Notwithstanding any provisions to the contrary, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

(g) Maximum holding by option-holder

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, our Board shall not grant options to any option-holder if it would result in the total number of Shares issued and to be issued to that Participant on exercise of his options (including both exercised and outstanding options) granted and to be granted to such person during any 12-month period exceeding 1% of the total Shares then in issue.

(h) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the Share Option Scheme ("**Option Period**") shall be a period of time to be notified by our Board to each option-holder, which our Board may in its absolute discretion determine, save that such period shall not be more than ten years from the **[REDACTED]**.

(i) Rights personal to option-holder

An option is personal to the option-holder and shall not be transferable or assignable. No option-holder shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or enter into any agreement to do so.

(j) Rights on termination of employment by dismissal

(i) If the option-holder ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment.

(ii) If the option-holder who is an employee or a director of our Company or another member of our Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph (i) above, the option (to the extent not already exercised) shall lapse on the date of cessation or termination of his employment (which date shall be the option-holder's last actual working day with our Company or the relevant subsidiary whenever salary is paid in lieu of notice or not) and shall on that day cease to be exercisable unless that option holder continues to serve our Group in some other capacity, in which case our Board is authorised to determine the Option Period and, if appropriate, determine that the option shall not lapse on the date of cessation or termination of employment but on another date as our Board may determine.

(k) Rights on death

If the option-holder ceases to be a Participant by reason of his death before exercising his option in full and (where the option-holder is an employee of our Group) none of the events which would be a ground for termination of his employment as described in paragraph (j)(i) above have arisen, his legal personal representative(s) may generally exercise the option up to the option-holder's entitlement as at the date of death (to the extent not already exercised) within a period of 12 months following the date of his death.

(l) Rights on ceasing to be a Participant

If the option-holder who is not an employee or a director of our Company or another member of our Group ceases to be a Participant as and when determined by our Board by resolution for any reason other than his death, our Board may by written notice to such option-holder within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(m) Rights on a compromise or arrangement

If a compromise or arrangement (other than a scheme of arrangement) between our Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice to all the option-holders on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and the option-holder (or his legal personal representative) may at any time thereafter but before such time as shall be notified by our Company exercise the option either to its full extent or to the extent notified by our Company and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the option-holder such number of Shares which fall to be issued on such exercise.

(n) Effect of alterations to share capital

If an alteration in the capital structure of our Company, whilst any option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of Shares, or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), such corresponding adjustments (if any) shall be made to:

(i) the number or nominal amount of Shares subject to the option so far as unexercised; and/or

(ii) the subscription price; and/or

(iii) the number of Shares subject to the Share Option Scheme, or any combination thereof, provided that:

1. any such adjustments give an option-holder the same proportion of the equity capital of our Company as that to which that option-holder was previously entitled; and

2. notwithstanding paragraph (1) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or **[REDACTED]**, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures (referred to in Hong Kong Accounting Standards 33) and the acceptable adjustments set out in the supplementary guidance on Rule 17.03(13) of the Listing Rules issued by the Stock Exchange on 5 September 2005 and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time;

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, a financial advisor or the auditor of our Company must certify in writing that the adjustments satisfy the requirements in paragraphs (1) and (2) above.

(o) Rights on winding-up

If a notice is given by our Company to the Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the option either to its full extent or to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the option-holder such number of Shares to the option-holder which fall to be issued on such exercise.

(p) Rights on a general offer by way of takeover

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) shall be entitled to exercise the option in full (to the extent not already exercised) or to the extent as notified by our Company at any time within such period as shall be notified by our Company.

(q) Rights on a general offer by way of scheme of arrangement

If a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the option either to its full extent or to the extent notified by our Company.

(r) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

(i) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);

(ii) the expiry of the periods referred to in paragraphs (j) to (m) and (o) to (q) above respectively;

(iii) the expiry of the period referred to in paragraph (p) above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares under the option offer;

(iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (q) above;

(v) the date of commencement of the winding-up of our Company;

(vi) the date on which the option-holder ceases to be a Participant as referred to in paragraphs (j)(i) and (ii) above;

(vii) the date on which the option-holder commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any other person over or in relation to any option or enter into any agreement to do so; and

(viii) subject to paragraph (j)(ii), the date the option-holder ceases to be a Participant for any other reason.

(s) Ranking of Shares

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the Articles for the time being in force and will carry the same rights in all respects with the fully paid Shares in issue on the date of allotment. Accordingly, the Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment provided that the record date for the dividend or distribution is a date after the date of allotment.

(t) Performance targets

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(u) Life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the Share Option Scheme takes effect in accordance with its terms, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Share Option Scheme.

(v) Alterations of the Share Option Scheme

(i) The specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the Participants and changes to the authority of our Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting).

(ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of options granted, must be approved by the Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting), except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 and other relevant requirements of the Listing Rules.

(w) Options to Related Persons

(i) Any grant of options to a Director, chief executive or substantial Shareholder of our Company or any of their respective associates (the "**Related Person**") must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is also a proposed grantee of such options).

(ii) Any grant of options to a substantial Shareholder or an independent non-executive Director of our Company or any of their respective associates must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon the exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12-month period up to and including the proposed **[REDACTED]**: (a) would represent in aggregate more than 0.1% of the Shares then in issue; and (b) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time).

(iii) At the general meeting to approve the proposed grant of options pursuant to this paragraph, the grantee, his associates and all core connected persons of our Company must abstain from voting unless they intend to vote against the proposed grant. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the relevant provisions of the Listing Rules. Our Company will send a circular to our Shareholders containing the information required under the Listing Rules.

(x) Restrictions on grant of options

No grant of options shall be made after inside information (as defined under the SFO) has come to our Company's knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules. Without prejudice to the foregoing, no option shall be granted during the period of 30 days immediately before the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange) for approving our Company's results for any yearly, half-yearly or quarter yearly period or any other interim period (whether or not required under the Listing Rules); and the deadline for our Company to announce our results for any year, half year or quarter-year period or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

(y) Cancellation of options

(i) Our Board may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant option-holder, as our Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation, except that where the option-holder is in breach of paragraph (j) above, our Board may cancel any outstanding option without the relevant option-holder's agreement.

(ii) Where our Company cancels options and issues new ones to the same option-holder, the issue of such new options may only be made under the Share Option Scheme with available unissued Shares under the Scheme Mandate limit, excluding the Shares which were the subject of cancelled options.

(z) Termination

Our Company may, by ordinary resolution in general meeting, or our Board may at any time terminate the Share Option Scheme and in such event no further options may be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect in respect of options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

The Share Option Scheme is conditional upon the Stock Exchange granting approval of the **[REDACTED]** of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of any options to be granted under the Share Option Scheme.

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Stock Exchange for the **[REDACTED]** of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

(aa) Present status of the Share Option Scheme

Application has been made to the **[REDACTED]** for the **[REDACTED]** of, and permission to deal in **[REDACTED]** Shares which fall to be issued upon exercise of any options which may be granted under the Share Option Scheme.

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Mr. Yip, Ms. Kwan and Kwong Luen Prosperity (collectively, the "**Indemnifiers**") have entered into a Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract referred to in the paragraph headed "B. Further information about our business – 1. Summary of material contracts" in this appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

(a) any liability for Hong Kong estate duty which may be incurred by any member of our Group (collectively, the "**Companies**") by reason of any transfer of property (within the meaning of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any relevant jurisdiction outside Hong Kong) to any of the Companies at any time on or before the **[REDACTED]**; and

(b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental to or relating to taxation) and claims falling on the Group resulting from or by reference to any income, profits, gains earned, accrued or received, or any transactions or events entered into or occurring, on or before the **[REDACTED]**, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities or claims are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation or liability:

(a) to the extent that provision, reserve or allowance has been made for such taxation, liabilities or claim in the audited accounts of the Group up to the end of the Track Record Period;

(b) falling on the Group on or after the **[REDACTED]** in the ordinary course of business before the **[REDACTED]** or carried out, made or entered into pursuant to a legally binding commitment created before the **[REDACTED]** in the ordinary course of business;

(c) to the extent that such taxation or liability is discharged by another person who is not the Company or a member of the Group and that the Company or such member of the Group is not required to reimburse such person in respect of the discharge of the taxation or liability;

(d) for which the Company is primarily liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business after the **[REDACTED]**;

(e) to the extent that such taxation, liabilities or claims arise or are incurred as a result of the imposition of taxation or claim as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department or any other relevant authority (whether in Hong Kong or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation, liabilities or claims arise or are increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or

(f) to the extent that any provision or reserve made for taxation in the audited accounts of the Group up to the end of the Track Record Period which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to each member of our Group that they will indemnify and at all times keep each member of our Group fully indemnified, on a joint and several basis, from and against all depletion in or reduction in value of assets, increase in liabilities, losses (including suspension of operation), claims, actions, proceedings, demands, orders, notices, liabilities, damages, costs (including legal costs on a full indemnity basis), expenses, interest, fines, penalties, payments of whatever nature suffered or incurred by any of the Companies directly or indirectly arising out of or in connection with any of the following (collectively, the "**Indemnified Matters**"):

(a) the implementation of the corporate reorganisation of the Group in the preparation of the **[REDACTED]** as described in this document;

(b) all breaches, non-compliance and/or violation of, by any of the Companies on or before the **[REDACTED]**, any applicable laws, rules and/or regulations of Hong Kong in relation to all the matters as referred to in the section headed "Business – Non-compliance" in this document; and

(c) all claims, penalties and fines and all losses and damages which may be suffered by any of the Companies as a result of the provision of foundation services including ELS and other associated works including pile cap construction, underground drainage works and site formation works by any of the Companies during the period between the respective dates of incorporation of the Companies and the **[REDACTED]**,

provided that the Indemnifiers are under no liability under the Deed of Indemnity in respect of the Indemnified Matters to the extent that:

(i) specific provision, reserve or allowance has been made for the relevant Indemnified Matters in the audited accounts of the Company or any other member of the Group for any accounting period up to the end of the Track Record Period; or

(ii) any specific provision, reserve or allowance made for the Indemnified Matters in the audited accounts of any of the Companies for any accounting period up to the end of the Track Record Period which is finally established to be over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of the Indemnified Matters shall be reduced by an amount not exceeding such provision, reserve or allowance, provided that the amount of any such provision, reserve or allowance applied to reduce the Indemnifiers' liability in respect of the Indemnified Matters shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that there is no estate duty in the Cayman Islands applicable to our Company.

2. Litigation

Our Directors confirm that save as disclosed in the section headed "Business – Litigations and potential claims" in this document, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group as at the Latest Practicable Date.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the **[REDACTED]** for **[REDACTED]** of and permission to deal in our Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the **[REDACTED]** and any options which may be granted under the Share Option Scheme.

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

The fee payable by our Company in respect of Grande Capital Limited's services as the sponsor to the **[REDACTED]** is HK$5.2 million, and the Sponsor will be reimbursed for their expenses properly incurred in connection with the **[REDACTED]**.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately US$5,898 (equivalent to approximately HK$46,000) and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which are contained in this document:

Name	Qualification
Grande Capital Limited	A licensed corporation to engage in type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Appleby	Legal advisers of our Company as to Cayman Islands law
Mr. Chan Chung	Barrister-at-law in Hong Kong
Frost & Sullivan Limited	Industry Consultant

7. Consents of experts

Each of the experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix has given and has not withdrawn its/his written consent to the issue of this document, with the inclusion of its/his letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or references to its/his name included herein in the form and context in which they respectively appear.

8. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by **[REDACTED]** and a branch register of members of our Company will be maintained by **[REDACTED]**, our **[REDACTED]**. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our **[REDACTED]** in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into **[REDACTED]**.

10. No material adverse change

Save as disclosed in the section headed "Financial Information – Material adverse change" in this document, our Directors confirm that there has been no material adverse change in the financial or trading position or prospect of our Group since 31 August 2020 (being the date to which the latest audited combined financial statements of our Group were made up), and there had been no events since 31 August 2020 which would materially affect the information shown in our combined financial statements included in the Accountants' Report set out in Appendix I to this document.

11. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the **[REDACTED]** accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

12. Miscellaneous

Save as disclosed in this document:

(a) within two years immediately preceding the date of this document:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed or intended to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries; and

(iii) no commission has been paid or payable (except to **[REDACTED]**) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any shares or debenture of our Company or any of its subsidiaries;

(b) no founders, management or deferred shares or any debentures of our Company or any of its subsidiaries have been issued or agreed to be issued;

(c) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(d) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document;

(e) none of experts named in the paragraph headed "E. Other information – 6. Qualifications of experts" in this appendix:

(i) is interested legally or beneficially in any securities in any member of our Group, including our Shares; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including our Shares;

(f) our Company and any of its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;

(g) no company within our Group is presently **[REDACTED]** on any stock exchange or traded on any trading system;

(h) there is no arrangement in existence under which future dividends are waived or agreed to be waived;

(i) our Group has no outstanding convertible debt securities;

(j) our Directors have been advised that, under Cayman Islands law, the use of a Chinese name by our Company in conjunction with the English name does not contravene Cayman Islands law; and

(k) the English text of this document shall prevail over the Chinese text.

13. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **[REDACTED]** and **[REDACTED]**;

(b) a copy of each of the material contracts referred to in the paragraph headed "B. Further information about our business – 1. Summary of material contracts" in Appendix IV to this document; and

(c) the written consents referred to in the paragraph headed "E. Other information – 7. Consents of experts" in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Cheung & Choy of Suites 3804–05, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and the Articles;

(b) the Accountants' Report of our Group prepared by Ernst & Young in respect of the historical financial information for each of the three years ended 31 March 2020 and the five months ended 31 August 2020, the text of which is set out in Appendix I to this document;

(c) the audited combined financial statements of our Group for each of the three years ended 31 March 2020 and the five months ended 31 August 2020;

(d) the report on the unaudited **[REDACTED]** financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this document;

(e) the letter of advice prepared by Appleby, our Cayman Islands legal advisers, summarising certain aspects of the Cayman Islands company laws referred to in Appendix III to this document;

(f) the Companies Law;

(g) the material contracts referred to in the paragraph headed "B. Further information about our business – 1. Summary of material contracts" in Appendix IV to this document;

(h) the service agreements and letters of appointment referred in the paragraph headed "C. Further information about substantial Shareholders and Directors – 2. Particulars of service agreements and letters of appointment" in Appendix IV to this document;

(i) the written consents referred to in the paragraph headed "E. Other information – 7. Consents of experts" in Appendix IV to this document;

(j) the Share Option Scheme;

(k) the F&S Report; and

(l) the legal opinion prepared by Mr. Chan Chung, our Legal Counsel, as to certain aspects of Hong Kong law relating to our Group.