

Glory Flame Holdings Limited

朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8059

PLACING

Sponsor



大有融資有限公司
MESSIS CAPITAL LIMITED

Bookrunner and Lead Manager



東方滙財證券有限公司
ORIENT SECURITIES LIMITED

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Glory Flame Holdings Limited

朝威控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares : 155,000,000 Placing Shares (comprising
108,500,000 New Shares to be offered
by our Company and 46,500,000 Sale
Shares to be offered by the Selling
Shareholder)

Placing Price : HK\$0.40 per Placing Share, plus
brokerage of 1%, SFC transaction levy
of 0.003% and Stock Exchange trading
fee of 0.005% (payable in full on
application in Hong Kong dollars)

Nominal value : HK\$0.01 per Share

Stock code : 8059

Sponsor



大有融資有限公司
MESSIS CAPITAL LIMITED

Bookrunner and Lead Manager



東方滙財證券有限公司
ORIENT SECURITIES LIMITED

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Pursuant to the termination provisions contained in the Underwriting Agreement, the Lead Manager has the right in certain circumstances, at its absolute discretion, to terminate the obligations of the Underwriter under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on Friday, 15 August 2014). Further details of the terms of the termination provisions are set out in the section “Underwriting – Grounds for termination” in this prospectus. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section “Risk factors” in this prospectus.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

2014
(Note 1)

Announcement of the level of indication of interests in the Placing to be published on our Company's website (www.drillcut.com.hk) and the website of the Stock Exchange (www.hkexnews.hk) (Note 2)	Thursday, 14 August
Allotment of Placing Shares to placees (or their designated person(s))	Thursday, 14 August
Despatch of share certificates for the Placing Shares into CCASS (Notes 3 and 4)	On or about Thursday, 14 August
Dealings in the Shares on GEM to commence	Friday, 15 August

Notes:

1. All times refer to Hong Kong local time and date. If there is any change to the above expected timetable, our Company will make a separate announcement to inform investors accordingly. Details of the structure of the Placing, including its conditions, are set out in the section "Structure and conditions of the Placing" in this prospectus.
2. None of our Company's website or any of the information contained in our Company's website forms part of this prospectus.
3. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Underwriter. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on or about Thursday, 14 August 2014 for credit to the respective CCASS Participant's stock accounts designated by the Underwriter, the placees or their agents, as the case may be. No temporary documents or evidence of title will be issued.
4. Share certificates for the Placing Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be on Friday, 15 August 2014) provided that (i) the Placing becomes unconditional in all respects; and (ii) the right of termination as described in the section "Underwriting – Grounds for termination" in this prospectus has not been exercised and has lapsed.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Placing, the Lead Manager has the right in certain circumstances, subject to its absolute discretion, to terminate the obligations of the Underwriter under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be on Friday, 15 August 2014). Further details of the terms of the force majeure provisions are set out in the section "Underwriting" in this prospectus.

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

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SUMMARY

This summary aims at giving you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

Various expressions used in this summary are defined in the section “Definitions” in this prospectus.

OVERVIEW OF OUR BUSINESS

We are principally engaged in the provision of concrete demolition services in Hong Kong as subcontractor. Our concrete demolition services are mainly concerned with the removal of pieces or sections of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing. A typical job involves one or a combination of concrete demolition methods depending on the situation. Our services are required in many different situations including, among others, addition and alteration works and redevelopment projects in buildings, roads, tunnels and underground facilities.

We undertake jobs of considerably different scales, ranging from a core drilling job (i.e. the making of circular cuts in a concrete structure) which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete. During each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, we undertook a total of 2,628, 2,675, 577 and 595 jobs respectively. The following table shows a breakdown of our jobs undertaken during the Track Record Period by range of income:

Range of income derived from the job	Number of jobs			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$5,000	1,381	1,409	320	278
HK\$5,000 to below HK\$50,000	1,077	1,034	212	244
HK\$50,000 to below HK\$200,000	128	175	33	56
HK\$200,000 to below HK\$500,000	25	38	7	13
HK\$500,000 to below HK\$1,000,000	10	11	3	2
HK\$1,000,000 or above	7	8	2	2
Total number of jobs undertaken during the year/period	2,628	2,675	577	595

SUMMARY

In general, job awarded to us represents part of a construction or civil engineering project. Such projects can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractor is employed by Government departments or statutory bodies, while private sector projects refer to projects that are not public sector projects. The following table sets out a breakdown of our Group's revenue during the Track Record Period attributable to public and private sector projects:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Private sector projects	35,950	63.2	49,557	66.6	8,832	59.9	14,811	71.3
Public sector projects	20,925	36.8	24,837	33.4	5,918	40.1	5,969	28.7
Total	56,875	100.0	74,394	100.0	14,750	100.0	20,780	100.0

Our customers primarily include main contractors and subcontractors of various different types of construction or civil engineering projects in Hong Kong. As we undertake jobs of considerably different scales, the revenue contribution from each customer to us varies significantly:

Range of revenue contribution during each year	Number of customers			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$100,000	549	494	213	195
HK\$100,000 to below HK\$500,000	70	74	27	34
HK\$500,000 to below HK\$1,000,000 (note)	15	20	2	9
HK\$1,000,000 or above (note)	12	15	2	2
Total number of customers with revenue contribution to us for the year/period	646	603	244	240

Note: For each of the years ended 31 December 2012 and 2013, the number of customers with revenue contribution of "HK\$500,000 to below HK\$1,000,000" and "HK\$1,000,000 or above" was higher than the number of jobs with revenue of the same ranges. This was because some of the customers with revenue contribution of "HK\$500,000 to below HK\$1,000,000" and "HK\$1,000,000 or above" placed multiple job orders of smaller amounts to us instead of placing job orders which amounted to "HK\$500,000 to below HK\$1,000,000" or "HK\$1,000,000 or above".

SUMMARY

We possess our own machinery and equipment for performing different types of concrete demolition work and therefore are not materially reliant on third party for machinery rental. Our owned machinery and equipment include remote controlled demolition robots, wall saw machines, wire saw machines, coring machines, cutting tools, hydraulic breakers, road saw machines, electric drills and excavators. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, we acquired new machinery in the amount of approximately HK\$7.0 million, HK\$4.9 million and HK\$0.8 million respectively.

We either carry out our work with our own equipment and labour resources, or further subcontract to other subcontractors after taking into consideration our available labour resources and the opportunity cost of performing the work with our own resources. Subcontractors include individuals as well as companies which generally have available skilled workers but lack the necessary machinery to perform concrete demolition works. The following table sets out the relevant amount of subcontracting charges incurred by our Group during the Track Record Period:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Subcontracting charges	15,392	19,356	2,874	4,058

Apart from subcontracting, we also require various goods and services in order to perform our works. Our suppliers primarily include suppliers of (i) materials and consumables such as saw blades, cutting wires, bolts and screws; and (ii) miscellaneous services such as the transportation of wastes to landfills and the rental of crane lorry for the lifting of cut-out sections of concrete.

SALES AND MARKETING

During the Track Record Period, we secured new businesses mainly through direct invitation for quotation by customers, which is considered by our Directors to be attributable to our well-established presence in the concrete demolition industry in Hong Kong. Apart from direct invitations by customers, we also actively explore new business opportunities by checking for any new construction or engineering projects in Hong Kong through subscription of relevant industry database and sending our marketing materials to potential customers when opportunity arises. We have also placed advertisements and sponsored certain events in the engineering and construction industries in Hong Kong to promote awareness of our Group. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, our total marketing expenses (including entertainment expenses which mainly represent costs in relation to the relationship building with existing and potential customers) amounted to approximately HK\$1.8 million, HK\$2.0 million, HK\$0.7 million and HK\$0.7 million respectively.

SUMMARY

COMPETITIVE STRENGTHS

According to the IPSOS Report, the concrete demolition industry in Hong Kong is dominated by the top 5 players including Drillcut, which together accounted for approximately 35.5% of the total revenue of the Hong Kong concrete demolition industry in 2013. Drillcut, our principal operating subsidiary, ranked third, sharing approximately 6.0% of the total revenue of the Hong Kong concrete demolition industry in 2013.

Our Directors believe that we compete favourably with our competitors in view of our competitive strengths, including (i) our well-established presence in the concrete demolition industry in Hong Kong, as Drillcut has been operating in the industry since 1981 and is a member of various industry organisations; (ii) our possession of a variety of machinery for concrete demolition work, which places us in a position to cater for concrete demolition jobs of different scales and complexity and allows us to be not materially reliant on third party for machinery rental; and (iii) having in-house mechanics to repair and maintain our machinery, which is less time-consuming than sending malfunctioning or out-of-order machinery to suppliers for examination and repairing.

BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) further enhancing our machinery and equipment by acquiring additional concrete demolition machinery and equipment so as to enhance our technical ability and to strengthen our capability to cater for different needs and requirements of different customers; (ii) further strengthening our manpower by recruiting more skilled workers and mechanics in order to cope with our business development and by arranging more training courses for our workers; and (iii) increasing our marketing efforts by placing additional advertisements and sponsoring more events in the construction and civil engineering industries in Hong Kong in order to further increase awareness of our Group.

RISK FACTORS

Potential investors are advised to carefully read the section “Risk factors” in this prospectus before making any investment decision in the Placing Shares. Some of the more particular risk factors include:

- We are reliant on the availability of public and private sector construction and civil engineering projects in Hong Kong.
- Our revenue is mainly derived from jobs which are not recurrent in nature and there is no guarantee that our customers will provide us with new business.
- We face risks in relation to the collectability of our trade receivables and retention receivables.
- Our pricing is determined based on the estimated time and costs involved in a job which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our Group’s financial results.

SUMMARY

- We recorded net current liabilities as at 31 December 2012 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future.
- Failure to invest in suitable machinery or any failure, damage or loss of our machinery may adversely affect our operations and financial performance.
- Unsatisfactory performance by our subcontractors or unavailability of subcontractors may adversely affect our operations and profitability.
- Our Group is dependent on key personnel and there is no assurance that our Group can retain them.

KEY OPERATIONAL AND FINANCIAL DATA

The following table sets forth our key financial information and ratios during the Track Record Period:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> (unaudited)	Three months ended 31 March 2014 <i>HK\$'000</i>
<i>Results of operations</i>				
Revenue	56,875	74,394	14,750	20,780
Gross profit	15,486	27,380	6,762	9,450
Profit before income tax	2,489	12,536	3,144	3,688
Profit and total comprehensive income for the year/period attributable to owners of our Company	2,369	9,830	1,992	2,687
	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	
<i>Financial position</i>				
Non-current assets	10,721	10,305	9,707	
Current assets	19,433	31,748	34,734	
Non-current liabilities	5,122	3,790	3,341	
Current liabilities	19,730	23,131	20,481	
Net current (liabilities)/assets	(297)	8,617	14,253	
Total equity	5,302	15,132	20,619	

SUMMARY

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
<i>Key financial ratios</i>			
Gross profit margin	27.2%	36.8%	45.5%
Net profit margin	4.2%	13.2%	12.9%
Return on equity	44.7%	65.0%	13.0%
Return on assets	7.9%	23.4%	6.0%
Current ratio	1.0	1.4	1.7
Trade receivables turnover days	80.6	85.0	96.5
Trade payables turnover days	31.6	42.3	37.7
Gearing ratio	3.0	1.0	0.6

In 2013 as compared to 2012, our revenue growth was primarily due to the increase in the general demand for concrete demolition services in Hong Kong, while the increase in our gross profit margin was primarily due to the increase in our efficiency and productivity and our relatively reduced reliance on labour resources and subcontractors as a result of our increasing use of remote controlled demolition robots in performing our jobs. Our revenue further increased for the three months ended 31 March 2014 as compared to the three months ended 31 March 2013 primarily due to the continued increase in the general demand for concrete demolition services in Hong Kong.

As at 31 December 2012, we recorded net current liabilities of approximately HK\$0.3 million. Nevertheless, as at 31 December 2013, we ceased to be in a net current liabilities position as we recorded net current assets of approximately HK\$8.6 million primarily due to our significant increase in current assets as a result of our business growth in 2013 leading to an increased amount of cash and cash equivalents and trade receivables. As at 31 March 2014, our net current assets further improved to approximately HK\$14.3 million mainly due to our stronger liquidity position resulted from our continued growth in our business during the Track Record Period.

Trade receivables turnover days during the Track Record Period were significantly longer than the credit period of 15 days expressly stated on the invoices issued by us to our customers. Our Directors consider that it is normal industry practice for main contractors to take substantially longer than 15 days to settle payments to sub-contractors, which is consistent with the findings in the IPSOS Report. Our trade receivables turnover days increased from approximately 80.6 days in 2012 to approximately 85.0 days in 2013. Such increase was primarily due to (i) the increase in the number of main contractor customers of sizeable construction projects who normally required longer time to process payments to subcontractors; and (ii) the increase in customers' overdue payments. Our trade receivables turnover days further increased to approximately 96.5 days as at 31 March 2014 primarily due to the increase in the number of customers who were themselves subcontractors of sizeable construction projects and who therefore required longer time to receive payments from their own customers (i.e. the main contractor) before processing and making payments to their further subcontractors.

Please refer to the section "Financial information" in this prospectus for a further discussion and analysis of our financial information.

SUMMARY

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Immediately after completion of the Placing and the Capitalisation Issue and assuming that any option which may be granted under the Share Option Scheme will not be exercised, our Company will be owned as to (i) 58.95% by Power Key, which is an investment holding company incorporated in the BVI and owned as to 74.55% by Mr. Pei and 25.45% by Mrs. Pei; (ii) 16.05% by Talent Great, which is an investment holding company incorporated in the BVI and wholly and directly owned by Ms. Pei; and (iii) 25% by public Shareholders.

Mr. Pei is the chairman of the Board, an executive Director and our chief executive officer. Mrs. Pei is the spouse of Mr. Pei and does not participate in the daily operations of our Group. Ms. Pei is the daughter of Mr. Pei and Mrs. Pei and is an executive Director and our administration manager and compliance officer. Each of Mr. Pei, Mrs. Pei and Ms. Pei does not, directly or indirectly, carry on, participate or engage in, nor are they otherwise interested in, any other business which is or may be in competition with the business of our Group. Please refer to the section “Directors and senior management” in this prospectus for the biographies of Mr. Pei and Ms. Pei.

We have entered into a tenancy agreement with Grandwin (which is a company owned by Mr. Pei, Mrs. Pei, Ms. Pei and Ms. Pei Wing Ki, a daughter of Mr. Pei and Mrs. Pei and a sister of Ms. Pei) in relation to the lease of premises for our operation, which will continue after the Listing and will constitute an exempt continuing connected transaction for our Company under the GEM Listing Rules. Further details are set forth in the section “Connected transactions” in this prospectus.

LITIGATION AND CLAIMS

As at the Latest Practicable Date, we are a party to certain civil proceedings in respect of, among others, (i) overdue payment by our customer and disputes over contract sum and work done by Drillcut and (ii) employees’ compensation claim and personal injuries claim, which are considered by our Directors to have no material impact on our Group. Please refer to the section “Business – Litigation and claims” in this prospectus for further information.

NON-COMPLIANCE

Drillcut, our principal operating subsidiary, has on various occasions been involved in a number of non-compliance matters. These include, among others, non-compliance with certain conditions and terms of the Government leases and occupation permits with respect to prescribed land use, certain statutory requirements in the then Companies Ordinance in effect (former Chapter 32 of the Laws of Hong Kong) of respect to matters such as timely adoption of audited accounts and due convention of annual general meetings, the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) with respect to timely filings of notifications in relation to commencement and cessation of employment, and the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) with respect to notice to the Commissioner of Labour regarding minor injuries of our employees. For details, please refer to the section “Business – Non-compliance” in this prospectus.

SUMMARY

PLACING STATISTICS

Number of Placing Shares:	155,000,000 Placing Shares (comprising 108,500,000 New Shares to be offered by our Company and 46,500,000 Sale Shares to be offered by the Selling Shareholder)
Placing Price:	HK\$0.40 per Placing Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)
Market capitalisation of the Shares:	HK\$248,000,000
Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share:	HK\$0.09 (Please refer to the section “Unaudited pro forma adjusted combined net tangible assets” in Appendix II to this prospectus for the bases and assumptions in calculating the unaudited pro forma adjusted combined net tangible assets per Share)

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$17.4 million. The Selling Shareholder will bear the listing expenses proportionally (i.e. approximately HK\$5.2 million) and the listing expenses to be borne by us is expected to be approximately HK\$12.2 million. Of such amount to be borne by us, approximately HK\$3.0 million is directly attributable to the issue of the New Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$9.2 million, which cannot be so deducted, will be charged to profit or loss. Of the approximately HK\$9.2 million which will be charged to profit or loss, nil, nil and approximately HK\$2.2 million has been charged during the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively, and approximately HK\$7.0 million is expected to be incurred for the nine months ending 31 December 2014. Expenses in relation to the Listing are non-recurring in nature. **The Board wishes to inform our Shareholders and potential investors that our Group’s financial performance and results of operations for the year ending 31 December 2014 will be significantly affected by the estimated expenses in relation to the Listing.**

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds to be received by us from the Placing based on the Placing Price of HK\$0.40 per Share, after deducting related expenses to be borne by us, are estimated to be approximately HK\$31.2 million. Our Directors presently intend that the net proceeds will be applied as follows:

- approximately HK\$16.4 million (approximately 52.5% of the net proceeds), HK\$4.6 million (approximately 14.6% of the net proceeds) and HK\$1.7 million (approximately 5.5% of the net proceeds) will be used for enhancing our machinery and equipment, strengthening our manpower and increasing our marketing efforts respectively, with the intended timing of the deployment of the proceeds as follows:

	From the Latest Practicable Date to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>	For the period from 1 January 2016 to 30 June 2016 <i>HK\$ million</i>	For the period from 1 July 2016 to 31 December 2016 <i>HK\$ million</i>	Total <i>HK\$ million</i>
Enhancing our machinery and equipment	4.9	6.5	–	2.0	3.0	16.4
Strengthening our manpower	1.0	1.2	0.8	0.8	0.8	4.6
Increasing our marketing efforts	0.2	0.3	0.4	0.4	0.4	1.7

- approximately HK\$5.5 million (approximately 17.6% of the net proceeds) will be used for the repayment of bank borrowings, of which:
 - approximately HK\$2.5 million represents the outstanding amount as at the Latest Practicable Date of a bank loan drawn in September 2013 under the SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited for financing the daily operation of our Group which bears interest at 3.5% per annum and is repayable on a monthly basis over the loan term of 5 years up to September 2018;
 - approximately HK\$3.0 million were drawn down in July 2014 from a general line of credit bearing interest at 3.25% per annum and repayable in full in October 2014 for financing the daily operation of our Group; and
- approximately HK\$3.0 million (approximately 9.8% of the net proceeds) will be used as general working capital of our Group.

SUMMARY

DIVIDEND POLICY

For the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our Group declared dividends of HK\$1.5 million, HK\$ nil and HK\$ nil respectively to its then shareholders. All dividends declared had been fully paid and we financed the payment of such dividends by internal resources.

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

BACKLOG

As at 31 December 2012 and 2013, 31 March 2014 and the Latest Practicable Date, we had a total of 31, 47, 42 and 151 jobs in our backlog (including jobs that have commenced but not completed as well as jobs that have been awarded to us but not yet commenced), with income derived or expected to be derived from such jobs as follows:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014	As at the Latest Practicable Date
Number of jobs in our backlog	31	47	42	151
Total revenue attributable to such jobs	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– recognised on or before the date indicated	964	6,218	5,415	19,879
– yet to be recognised as at the date indicated	<u>4,988</u>	<u>30,679</u>	<u>59,729</u>	<u>56,870</u>
	<u><u>5,952</u></u>	<u><u>36,897</u></u>	<u><u>65,144</u></u>	<u><u>76,749</u></u>

SUMMARY

The expected completion dates of the jobs in our backlog are as follows:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014	As at the Latest Practicable Date
Number of jobs in our backlog which were completed or expected to be completed:				
– on or before 31 December 2013*	21	N/A	N/A	N/A
– 1 January 2014 to Latest Practicable Date*	1	20	4	N/A
– Latest Practicable Date to 30 September 2014^	5	20	29	140
– 1 October 2014 to 31 December 2014^	4	6	7	8
– 1 January 2015 to 31 December 2015^	0	1	1	2
– after 31 December 2015^	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
	<u><u>31</u></u>	<u><u>47</u></u>	<u><u>42</u></u>	<u><u>151</u></u>

* *denotes actual completion dates*

^ *denotes expected completion dates*

SUMMARY

LATEST DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on the development of our business of provision of concrete demolition services in Hong Kong. Based on our unaudited management accounts for the five months ended 31 May 2014, our revenue was approximately HK\$39.0 million, representing an increase of approximately 60.2% from approximately HK\$24.3 million for the five months ended 31 May 2013. Such increase was mainly due to the increases in concrete demolition services provided by our Group as a result of the overall development in the construction industry in Hong Kong. In particular, our Directors consider that the continued increase in major infrastructure and construction projects in Hong Kong has led to a general increase in the demand for concrete demolition services, resulting in more business opportunities being presented to and secured by our Group and thus the increase in our revenue for the five months ended 31 May 2014 as compared to that for the same period in 2013. Our gross profit margin was approximately 42.2% for the five months ended 31 May 2013 and approximately 44.0% for the five months ended 31 May 2014, which remained relatively stable but was higher than our overall gross profit margin of approximately 36.8% for the year ended 31 December 2013 because we engaged fewer subcontractors and relied relatively more on our own labour resources in the first quarter of the year. During the Chinese New Year holidays, subcontractors may not be available for service and we therefore recorded higher gross profit margin in the first quarter of the year due to reduced subcontracting charges. However, our results of operation for the year ending 31 December 2014 are expected to be significantly affected by the non-recurring listing expenses as discussed in the section “Summary – Listing expenses” in this prospectus.

To cope with the business expansion of our Group, during the five months ended 31 May 2014, we acquired additional machinery (including 3 sets of remote controlled demolition robots in May 2014) of approximately HK\$7.5 million at cost.

The collection of trade receivables subsequent to the Track Record Period has been satisfactory. Up to 30 June 2014, approximately 64.1% (or approximately HK\$14.2 million) of our trade receivables (net of impairment and excluding retention receivables) as at 31 March 2014 was settled. Having considered the long-standing relationship with our customers, our Directors are confident that most of the trade receivables that remained outstanding are collectable and they will not affect our Group’s normal operation and financial position.

The above financial information has been reviewed by our reporting accountants.

Our Directors confirm that save as the non-recurring listing expenses as disclosed above, subsequent to the Track Record Period and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.

DEFINITIONS AND GLOSSARY

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

“Articles” or “Articles of Association”	the articles of association of our Company adopted on 2 August 2014 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bookrunner” or “Lead Manager”	Orient Securities Limited, a licensed corporation under SFO to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities, being the underwriter, the bookrunner and the lead manager to the Placing
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 511,499,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the section “Further information about our Company – Written resolutions of our Shareholders passed on 2 August 2014” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person permitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules

DEFINITIONS AND GLOSSARY

“Companies Law”	the Companies Law (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), which came into effect on 3 March 2014, as amended, modified and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” and “our Company”	Glory Flame Holdings Limited (朝威控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2014
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the GEM Listing Rules and in the case of our Company, means collectively, Mr. Pei and Power Key
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of our Company
“Drillcut”	Drillcut Limited (鑽威工程有限公司) (formerly known as Techk Limited, Triefus Drillcut Limited and Triefus Drillcut Limited (鑽威工程有限公司)), a company incorporated in Hong Kong on 5 May 1981 with limited liability and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
“EUR”	Euro, the lawful currency of the members states of the European Union
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, modified and supplemented from time to time

DEFINITIONS AND GLOSSARY

“GEM Website”	http://www.hkgem.com , being the internet website operated by the Stock Exchange for the purposes of GEM
“Government”	the government of Hong Kong
“Grandwin”	Grandwin Worldwide Resource Limited (君運有限公司), a limited company incorporated in Hong Kong on 17 January 2003 and owned as to 60% by Mr. Pei, 20% by Mrs. Pei, 10% by Ms. Pei and 10% by Ms. Pei Wing Ki, a daughter of Mr. Pei and Mrs. Pei and a sister of Ms. Pei
“Group”, “we”, “us” or “our Group”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period before our Company became the holding company of its present subsidiaries pursuant to the Reorganisation
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“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 GEM Listing Rules) any directors, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates and not otherwise a connected person of our Company

DEFINITIONS AND GLOSSARY

“IPSOS”	IPSOS Hong Kong Limited, an independent market research agent
“IPSOS Report”	a market research report commissioned by us and prepared by IPSOS on the overview of the industry in which our Group operates
“Latest Practicable Date”	30 July 2014, being the latest practicable date prior to the printing of this prospectus for the purposes of ascertaining certain information in this prospectus prior to its publication
“Legal Counsel”	Chan Chung, barrister-at-law of Hong Kong
“Listing”	listing of our Shares on GEM
“Listing Date”	the date, expected to be on or about Friday, 15 August 2014, on which dealings in our Shares first commence on GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 2 August 2014 and as amended from time to time
“Mr. Pei”	Mr. Pei Wing Fu (費榮富), an executive Director, the chairman of the Board and one of our Controlling Shareholders, as well as the spouse of Mrs. Pei and father of Ms. Pei
“Mrs. Pei”	Ms. Lau Kwai Fong (劉桂芳), the spouse of Mr. Pei and mother of Ms. Pei
“Ms. Pei”	Ms. Pei Wing Sze, Clare (費詠詩), an executive Director and the daughter of Mr. Pei and Mrs. Pei
“New Shares”	108,500,000 new Shares to be offered by our Company for subscription at the Placing Price under the Placing
“Placing”	the conditional placing of the Placing Shares by the Underwriter on behalf of our Company and the Selling Shareholder for cash at the Placing Price with professional, institutional and/or other investors as described in the section “Structure and conditions of the Placing” in this prospectus
“Placing Price”	HK\$0.40 per Placing Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

DEFINITIONS AND GLOSSARY

“Placing Shares”	the 155,000,000 Shares (comprising 108,500,000 New Shares to be offered by our Company and 46,500,000 Sale Shares to be offered by the Selling Shareholder) being offered for subscription or purchases at the Placing Price pursuant to the Placing
“Power Key”	Power Key Investments Limited (威建投資有限公司), a company incorporated in the BVI on 21 February 2014 with limited liability which is owned as to 74.55% by Mr. Pei and as to 25.45% by Mrs. Pei, and is a Controlling Shareholder and the Selling Shareholder
“PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Reorganisation”	the corporate reorganisation arrangements implemented by our Group in preparation for the Listing which is more particularly described in the section “History and development” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Sale Shares”	46,500,000 Shares to be offered by the Selling Shareholder for purchases at the Placing Price under the Placing
“Selling Shareholder”	Power Key, being the Shareholder who offers 46,500,000 Shares for purchase in the Placing
“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, modified and supplemented from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in HK dollars and listed on GEM
“Shareholder(s)”	holder(s) of our Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 2 August 2014, the principal terms of which are summarised in the section “Share Option Scheme” in Appendix IV to this prospectus

DEFINITIONS AND GLOSSARY

“Sponsor”	Messis Capital Limited, the sponsor to the Listing and a licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed to it in the GEM Listing Rules and details of our Substantial Shareholders are set out in the section “Substantial Shareholders” in this prospectus
“Takeovers Code”	the Takeovers Code as defined in the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, modified and supplemented from time to time
“Talent Great”	Talent Great Investments Limited (巧博投資有限公司), a company incorporated in the BVI on 19 February 2014 with limited liability which is wholly owned by Ms. Pei, and is a Substantial Shareholder
“Track Record Period”	the two years ended 31 December 2013 and the three months ended 31 March 2014
“Ultimate Expert”	Ultimate Expert Holdings Limited (通才控股有限公司), a company incorporated in the BVI on 8 January 2014 with limited liability which is a direct wholly-owned subsidiary of our Company and the intermediate holding company of our Group upon completion of the Reorganisation
“Underwriter”	the underwriter of the Placing whose name is set out in the section “Underwriting – Underwriter” in this prospectus
“Underwriting Agreement”	the conditional underwriting agreement relating to the Placing entered into on 6 August 2014 among our Company, the Selling Shareholder, the executive Directors, our Controlling Shareholders, the Sponsor, the Bookrunner, the Lead Manager and the Underwriter relating to the Placing, particulars of which are summarised in the section “Underwriting” in this prospectus

DEFINITIONS AND GLOSSARY

“United States”	the United States of America its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“sq.ft.”	square foot
“sq.m.”	square meter(s)
“%”	per cent

FORWARD-LOOKING STATEMENTS

This prospectus 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, the United States, the PRC and the world in general.

These statements are based on several 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 “Risk factors” and “Financial information” in this prospectus.

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

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

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

We are reliant on the availability of public and private sector construction and civil engineering projects in Hong Kong

Our results of operations are affected by the number and availability of public and private sector construction and civil engineering projects in Hong Kong, which in turn are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the Hong Kong property markets, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure. A downturn in either sector, or both, may result in a significant decrease in the number of concrete demolition jobs available in Hong Kong in general. For instance, an economic downturn in Hong Kong, an outbreak of epidemic disease, and/or adverse government policies on the property markets in Hong Kong may lead to a significant decline in the number of private housing construction projects. On the other hand, government spending on infrastructures and the number of public sector projects may be affected by factors such as government budgets and town planning.

There is no assurance that the number of private sector projects and/or public sector projects will not decrease in the future. In the event that the availability of concrete demolition jobs decreases as a result of the decrease in the number of private and/or public sector projects in Hong Kong, our businesses in general and our results of operations may be adversely and materially affected.

Our revenue is mainly derived from jobs which are not recurrent in nature and there is no guarantee that our customers will provide us with new business

Our revenue is typically derived from jobs which are non-recurrent in nature. Our customers are under no obligation to award jobs to us. As such, there is no guarantee that we will be able to secure new business from customers. Accordingly, the number and scale of jobs 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.

RISK FACTORS

Our past revenue and profit margin may not be indicative of our future revenue and profit margin

For each of the two years ended 31 December 2012 and 2013, our revenue amounted to approximately HK\$56.9 million and HK\$74.4 million respectively; our gross profit amounted to approximately HK\$15.5 million and HK\$27.4 million respectively (representing gross profit margin of approximately 27.2% and 36.8% respectively); while our net profit amounted to approximately HK\$2.4 million and HK\$9.8 million respectively (representing net profit margin of approximately 4.2% and 13.2% respectively). For the three months ended 31 March 2013 and 2014, our revenue amounted to approximately HK\$14.8 million and HK\$20.8 million respectively; our gross profit amounted to approximately HK\$6.8 million and HK\$9.5 million respectively (representing gross profit margin of approximately 45.8% and 45.5% respectively); while our net profit amounted to approximately HK\$2.0 million and HK\$2.7 million respectively (representing net profit margin of approximately 13.5% and 12.9% respectively).

However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new businesses and to control our costs. Profit margins for our concrete demolition works may fluctuate from job to job due to factors such as the type of demolition techniques and machinery employed and the amount of labour resources required. There is no assurance that our profit margins in the future will remain at a level comparable to those recorded during the Track Record Period. Our financial condition may be adversely affected by any decrease in our profit margins.

We face risks in relation to the collectability of our trade receivables and retention receivables

We issue invoice to our customer for works completed by us. A credit period of 15 days is stated on the invoices issued by us to our customers. However, there can be no assurance that our customers will settle our invoices on time and in full. In addition, a portion of the payment, normally at 5%, may be withheld by our customers as retention money depending on the agreement with individual customers and there can be no assurance that such retention money will be released by our customers to us on a timely basis and in full upon job completion. As at 31 December 2012 and 2013 and 31 March 2014, we recorded retention receivables (net of impairment) of approximately HK\$2.1 million, HK\$2.9 million and HK\$2.9 million respectively. As at 31 December 2012 and 2013, we recorded trade receivables (excluding retention receivables and net of impairment) of approximately HK\$12.2 million, HK\$22.4 million and HK\$22.1 million respectively, of which approximately HK\$10.5 million, HK\$16.0 million and HK\$14.1 million respectively have been past due but not impaired as they were due from customers of whom there was no history of default during the Track Record Period. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our trade receivables turnover days (excluding retention receivables) were 80.6 days, 85.0 days and 96.5 days respectively, which were significantly longer than the credit period of 15 days stated on the invoices issued by us to our customers. Any difficulty in collecting a substantial portion of our trade receivables could materially and adversely affect our cash flows and financial positions.

RISK FACTORS

Our pricing is determined based on the estimated time and costs involved in a job which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our Group's financial results

We need to estimate the time and costs involved in a concrete demolition job in order to determine our fee. There is no assurance that the actual amount of time and costs would not exceed our estimation during the performance of the concrete demolition jobs. The actual amount of time and costs involved in completing a concrete demolition job may be adversely affected by many factors, including adverse weather conditions, accidents, breakdown of machinery and equipment, unforeseen site conditions such as limited spaces that impeded from the use of certain machinery or unexpected thickness, depth, composition, or size of concrete to be demolished, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a job may adversely affect our profit margin and results of operations.

We recorded net current liabilities as at 31 December 2012 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future

We recorded net current liabilities of approximately HK\$0.3 million as at 31 December 2012. The net current liabilities position was primarily attributable to the amount due to a shareholder of approximately HK\$6.6 million as well as the use of short-term bank borrowings to partly finance our capital expenditures for the purchases of plant and machinery and motor vehicles. As at 31 December 2013 and 31 March 2014, we recorded net current assets of approximately HK\$8.6 million and HK\$14.3 million respectively.

There is no assurance that we will not experience net current liabilities position in the future. We may not have sufficient working capital to meet our current liabilities or expand our operations as anticipated. In such circumstances, our liquidity, business operations, financial condition and prospects may be materially and adversely affected.

Failure to invest in suitable machinery or any failure, damage or loss of our machinery may adversely affect our operations and financial performance

Our concrete demolition services rely on the machinery and equipment owned by us. Market developments in and demand for different concrete demolition techniques and different types of machinery or equipment may change continuously. If we fail to remain attentive to and invest in suitable machinery to cope with any latest development in such market trends or demands and to cater for different needs and requirements of different customers, our overall competitiveness and thus our financial performance and operation results may be adversely affected.

In addition, there is no assurance that our machinery and equipment 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, damaged or lost machinery or equipment cannot be repaired and/or replaced in a timely manner, our operations and financial performance could be adversely affected.

RISK FACTORS

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

Depending on the availability of our labour resources and the opportunity cost of performing the work with our own resources, we may subcontract our works to other subcontractors. For the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, subcontracting charges incurred by us amounted to approximately HK\$15.4 million, HK\$19.4 million, HK\$2.9 million and HK\$4.1 million respectively. We carefully evaluate subcontractors taking into account their technical capability, track records, labour resources, and pricing. However, 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 staff. Outsourcing exposes us to risks associated with non-performance, delayed performance or sub-standard performance by our subcontractors. As a result, we may experience deterioration in the quality or delayed delivery of our works, incur additional costs due to the delays, or be subject to liability under the relevant contract with our customers for our subcontractor's unsatisfactory performance. 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 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 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, amongst other things, the contribution of Mr. Pei and Ms. Pei. Details of their expertise and experience are set out in the section "Directors and senior management" in this prospectus.

Our key personnel and management talents, efforts and expertise in the concrete demolition industry are crucial to our operations 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 operations should any of our executive Directors or senior management terminate his/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 staffs or that they will not resign in the future.

Any increase in cost of labour and the availability of labour may adversely affect our competitiveness and profitability

Our labour cost amounted to approximately HK\$11.1 million, HK\$11.2 million, HK\$2.7 million and HK\$3.1 million (representing approximately 26.9%, 23.9%, 33.9% and 27.7% of our total cost of sales) for each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 respectively. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our labour costs (in

RISK FACTORS

respect of our staff who are directly involved in carrying out our concrete demolition services) on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 17%, which correspond to the approximate minimum and maximum year-on-year fluctuations in average daily wage of concrete demolition workers from 2009 to 2013 as shown in the IPSOS Report (see the section “Industry overview – Concrete demolition industry overview – Average wage trend for workers in the concrete demolition industry” in this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall staff costs (in respect of staff who are directly involved in carrying out our concrete demolition services)	+5%	+17%	-5%	-17%
Change in profit before tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(556)	(1,890)	556	1,890
Year ended 31 December 2013	(561)	(1,908)	561	1,908
Three months ended 31 March 2013	(135)	(461)	135	461
Three months ended 31 March 2014	(157)	(533)	157	533
Change in profit after tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(464)	(1,578)	464	1,578
Year ended 31 December 2013	(469)	(1,593)	469	1,593
Three months ended 31 March 2013	(113)	(385)	113	385
Three months ended 31 March 2014	(131)	(445)	131	445

Labour cost in Hong Kong may be affected by the demand for and supply of labours 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 average labour costs will be stable. 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\$30 per hour). Although none of our employees were paid at the current statutory minimum wage of HK\$30 per hour or lower as at the Latest Practicable Date, 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.

RISK FACTORS

Our profitability may be affected by the potential increase in depreciation expenses upon the planned acquisition of additional machinery and equipment

It is one of our business strategies to acquire additional concrete demolition machinery and equipment by utilising a portion of the net proceeds from the Placing so as to enhance our technical ability and to strengthen our capability to cater for different needs and requirements of different customers. Please refer to the section “Future plans and use of proceeds” in this prospectus for details of the types of machinery and equipment to be purchased and the intended timing of deployment of the proceeds in this regard. Please also refer to the section “Business – Machinery” in this prospectus for details of our existing machinery. As a result of the purchase of additional machinery and equipment, 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 and equipment is calculated using the straight-line method. Therefore, based on the intended timing of deployment of the proceeds for purchasing machinery and equipment and taking into account our existing machinery and equipment, it is estimated that depreciation expenses on plant and machinery of approximately HK\$4.9 million will be incurred for the nine months ending 31 December 2014, approximately HK\$7.0 million will be incurred for the year ending 31 December 2015, and approximately HK\$6.0 million will be incurred for the year ending 31 December 2016.

Our financial performance and results of operations will be affected by our Listing expenses, which are non-recurring in nature

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$17.4 million. The Selling Shareholder will bear the listing expenses proportionally (i.e. approximately HK\$5.2 million) and the listing expenses to be borne by us is expected to be approximately HK\$12.2 million. Of such amount to be borne by us, approximately HK\$3.0 million is directly attributable to the issue of the New Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$9.2 million, which cannot be so deducted, will be charged to profit or loss. Of the approximately HK\$9.2 million which will be charged to profit or loss, nil, nil and approximately HK\$2.2 million has been charged during the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively, and approximately HK\$7.0 million is expected to be incurred for the nine months ending 31 December 2014. Expenses in relation to the Listing are non-recurring in nature. The Board wishes to inform our Shareholders and potential investors that our Group’s financial performance and results of operations for the year ending 31 December 2014 will be significantly affected by the estimated expenses in relation to the Listing.

RISK FACTORS

We had pending civil proceedings that were brought against us as at the Latest Practicable Date. In addition, 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

During the Track Record Period and as at the Latest Practicable Date, we are a party to certain civil proceedings in respect of, among others, overdue payment by customer and disputes over contract sum and work done by Drillcut, and employees' compensation claim and personal injuries claim.

We may also receive claims in respect of various matters from our customers, subcontractors, workers and other parties concerned with our projects from time to time. Such claims include claims for compensation for late completion of works and delivery of substandard works, and claims in respect of personal injuries and labour compensation in relation to the works. During the Track Record Period, we encountered several incidents of disputes or litigation arising out of our operations which did not and are not expected to have material effect on our business and/or financial position. Please refer to the section "Business – Litigation and claims" in this prospectus for further information.

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 in the construction industry if they were published by the press. If the aforesaid claims were successfully made against our Group, it would result in the incurring of legal costs, which in turn could adversely affect our revenue, results of operation and financial position.

Due to the nature of our business, we may become involved in claims, legal proceedings and investigations relating to, among other things, contractual disputes with customers or subcontractors, labour disputes, workers' compensation, and safety, environmental or other legal requirements. Legal proceedings can be time-consuming, expensive, and may divert our management's attention away from the operation of our business. The legal proceedings to which we are a party or may in the future become a party may have a material and adverse impact on our business.

Our Group has records of certain non-compliance of Hong Kong regulatory requirements

Drillcut, our subsidiary incorporated in Hong Kong has on various occasions been involved in a number of non-compliance matters. These include, among others, non-compliance with certain conditions and terms with the Government leases and occupation permit with respect to prescribed land use, certain statutory requirements in the then Companies Ordinance in effect (former Chapter 32 of the Laws of Hong Kong) with respect to matters such as timely adoption of audited accounts and due convention of annual general meetings, the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) with respect to timely filings of notifications in relation to commencement and cessation of employment and the Employees' Compensation Ordinance (Chapter 282 of the Laws of

RISK FACTORS

Hong Kong) with respect to notification to the Commissioner of Labour regarding minor injuries of our employees. For details, please refer to the section “Business – Non-compliance” in this prospectus.

There is no assurance that the relevant authorities would not take any enforcement action against Drillcut and its directors in relation to the non-compliance. In the event that such enforcement action is taken, our reputation, cash flow and results of operation may be adversely affected.

Fluctuations in exchange rates may increase our operating costs

Some of our purchases, such as those of certain machinery, tools, consumables and parts that are imported from places outside Hong Kong, are denominated in currencies other than Hong Kong dollars, such as RMB and EUR. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our purchases denominated in currencies other than Hong Kong dollars amounted to approximately HK\$2.0 million, HK\$3.5 million and HK\$0.4 million respectively, representing approximately 17.6%, 28.7% and 19.5% of our total purchases of the respective years/periods. As we did not engage in any hedging activity, any depreciation in Hong Kong dollars against such currencies will increase our costs and affect our profitability.

We are exposed to interest rate risk which is unhedged and may affect our cash flow

As at 31 March 2014, our Group had committed banking facilities (including the finance lease facilities) of approximately HK\$28.3 million which bore interest at 3.25% to 6.25% per annum. Our Group has not hedged against interest rate risks. Should there be an increase in interest rate, our interest expenses may increase and our cash flows and profitability may be adversely affected.

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 and equipment and our manpower and to increase our marketing effort 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.

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

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,

RISK FACTORS

wars and terrorist attacks. Any such event could cause us to reduce or halt our operation, adversely affect our business operation, increase our costs or prevent us from completing our jobs, any one of which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

The construction industry, including the concrete demolition industry, in Hong Kong has been facing the issue of labour shortage

According to the IPSOS Report, the construction industry, including the concrete demolition industry, in Hong Kong has been facing the issue of labour shortage due to insufficient number of workers entering the industry. The growing demand for construction works exacerbated the shortage issue, pushing up the daily wage of a worker in concrete sawing and drilling industry in Hong Kong from 2009 to 2013.

In addition, the workers in the construction industry have been strongly opposed to the measure of introducing foreign construction workers into Hong Kong for the sake of protecting their own interest. They prefer training skilled workers locally on a gradual pace instead.

As a result of the shortage of local labour supply, the average daily wage of a worker in the concrete demolition industry in Hong Kong increased during the period from 2009 to 2013 from approximately HK\$770.9 per day per worker to approximately HK\$1,157.4 per day per worker, representing a compound annual growth rate of approximately 10.7%.

If our Group is unable to recruit or retain sufficient workers or fails to effectively manage our staff costs as a result of shortage of local labour supply, our business operations and financial performance may be materially and adversely affected.

Personal injuries, property damages or fatal accidents may occur during the course of performing our works

In the course of our operations, we require our employees to adhere to and implement all the safety measures and procedures as stipulated in our in-house rules. Nevertheless, we cannot guarantee that there will be no violation of rules, laws or regulations by our employees or our subcontractors. Failure to implement safety measures on our work sites may lead to the occurrence of personal injuries, property damage or fatal accidents, which may adversely affect our reputation and our financial position to the extent not covered by insurance.

We are exposed to certain types of liabilities that are generally not insured

Certain types of liabilities, such as liabilities arising from acts of God or other natural disasters, are generally not insured because they are either uninsurable or it is not cost justifiable to insure against such risks. In the event that an uninsured liability arises, we may suffer losses which may adversely affect our financial position.

RISK FACTORS

We are exposed to environmental liability

Our business is subject to the environmental regulations in Hong Kong. Such regulations may be revised by the Government from time to time to reflect the latest environmental needs. Any changes to such regulations and guidelines may increase our cost and burden in complying with them.

RISKS RELATING TO HONG KONG

The general economy conditions in Hong Kong may affect our business and financial positions

Our performance and financial position is heavily dependent on the state of economy in Hong Kong as our revenue attributable to the Hong Kong market accounted for 100% of our Group's total revenue for each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014. In the event that there is a downturn in the economy of Hong Kong, our results of operations and financial position may be severely affected.

The state of political environment in Hong Kong may affect our business and financial positions

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of "one country, two systems" according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the "one country, two systems" principle and the level of autonomy as currently in place at the moment. Since our primary operations are substantially located in Hong Kong, any change of such political arrangements may post immediate threat on the stability of the economy in Hong Kong, thereby directly and negatively affecting our results of operations and financial positions.

RISKS RELATING TO THE PLACING

There has been no prior public market for the Shares and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Placing. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or its competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation, fluctuations in the market prices for our services, materials or labours, the liquidity of the market for the Shares, or the general market sentiment regarding the industry in which we operate could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price 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, investors may not be able to sell their Shares at or above the Placing Price.

RISK FACTORS

Investors may experience dilution if we issue additional Shares in the future

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

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

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

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

Investors may experience difficulties in enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on protection of minorities is set out in Appendix III to this prospectus.

Future issues, offers or sale of Shares may adversely affect the prevailing market price 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 issues or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

RISK FACTORS

Granting options under the Share Option Scheme may affect our Group's result 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 at 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 operations. 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 see the section "Share Option Scheme" in Appendix IV to this prospectus.

RISKS RELATING TO THIS PROSPECTUS

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

Certain facts, statistics, and data presented in the section "Industry overview" and elsewhere in this prospectus relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. In addition, certain information and statistics set forth in this prospectus have been extracted from a market research report commissioned by us and prepared by IPSOS, 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 prospectus. 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 Placing 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 will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

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

Included in this prospectus 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 "Forward-looking statements" in this prospectus.

RISK FACTORS

Investors should read this entire prospectus 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 Placing including, in particular, any financial projections, valuations or other forward looking statement

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to us and the Placing that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Bookrunner, the Lead Manager and the Underwriter, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the Placing 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 prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Placing Shares. You should rely only on the information contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing, which is sponsored by Messis Capital Limited and is managed by the Lead Manager. The Placing Shares are fully underwritten by the Underwriter pursuant to the Underwriting Agreement. For further information about the Underwriter and the placing and underwriting arrangements, please refer to the section "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his/her acquisition of Placing Shares to confirm, that he/she is aware of the restrictions on offers and sale of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Selling Shareholder, the Controlling Shareholders, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter, and any of their respective directors or any other persons involved in the Placing. It is expected that, pursuant to the Placing, the Underwriter will conditionally place the Placing Shares on behalf of our Company and the Selling Shareholder with investors.

STRUCTURE AND CONDITIONS OF THE PLACING

Further information on the above and the structure and conditions of the Placing is set forth in the section "Structure and conditions of the Placing" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

APPLICATION FOR LISTING ON GEM

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing (including any Shares to be issued upon exercise of any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

A total of 155,000,000 Shares representing 25% of the enlarged issued share capital of our Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be made available under the Placing.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public. A total of 155,000,000 Shares representing 25% of the enlarged issued share capital of our Company will be in the hands of the public immediately following completion of the Placing and the Capitalisation Issue and upon Listing.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, the Selling Shareholder, our Directors, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

SHARE REGISTRAR, REGISTRATION AND STAMP DUTY

All the Placing Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong by the Hong Kong Branch Share Registrar. Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained on the Cayman Islands will not be subject to the Cayman Islands stamp duty.

The Shares are freely transferable. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on or about Friday, 15 August 2014. The Shares will be traded in board lots of 5,000 Shares each.

CURRENCY TRANSLATIONS

Unless otherwise specified, translations of RMB into HK\$ and US\$ into HK\$ in this prospectus are based on the exchange rates set out below (for the purpose of illustration only):

RMB0.80:HK\$1.00

US\$1.00:HK\$7.80

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

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. PEI Wing Fu (費榮富)	Flat A, 45th Floor, Block 7 Park Avenue 18 Hoi Ting Road Kowloon Hong Kong	Chinese
Ms. PEI Wing Sze Clare (費詠詩)	Flat B, 26th Floor, Tower 5 Aria 51 Fung Shing Street Ngau Chi Wan Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Prof. LAM Sing Kwong Simon (林誠光)	Flat 5A, Block 2 Pine Court 23 Sha Wan Drive Pok Fu Lam Hong Kong	Chinese
Mr. LAW Yiu Sing (羅耀昇)	Flat C, 6th Floor Marlborough House 154 Tai Hang Road Tai Hang Hong Kong	Canadian
Ms. WONG Wai Ling (黃慧玲)	Flat B, 17th Floor Block 5, Cavendish Heights 33 Perkins Road Jardine's Lookout Hong Kong	Chinese

For further information on the profile and background of our Directors, please refer to the section "Directors and senior management" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED

Sponsor

Messis Capital Limited

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

Room 1606, 16th Floor, Tower 2
Admiralty Centre
18 Harcourt Road
Hong Kong

Bookrunner, Lead Manager and Underwriter

Orient Securities Limited

a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO

Rooms 2801-2804
28/F Dah Sing Financial Centre
108 Gloucester Road
Wan Chai
Hong Kong

Legal advisers to our Company

As to Hong Kong law

Loong & Yeung

Solicitors, Hong Kong
Suites 2001-2006, 20th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

As to Cayman Islands law

Appleby

Cayman Islands attorneys-at-law
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

Legal advisers to the Sponsor, the Bookrunner, the Lead Manager and the Underwriter

As to Hong Kong law

Pang & Co. in association with Loeb & Loeb LLP

Solicitors, Hong Kong
21st Floor
CCB Tower
3 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Reporting accountants

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

31/F, Gloucester Tower

The Landmark

11 Pedder Street, Central

Hong Kong

CORPORATE INFORMATION

Registered office	Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in Hong Kong	Suites 2001-2006, 20th Floor Jardine House 1 Connaught Place Central Hong Kong
Company secretary	Ms. AU Shuk Man (歐淑敏) <i>Certified Public Accountant</i> Flat E, 28th Floor Skyline Plaza Tsuen Wan New Territories Hong Kong
Compliance adviser	Messis Capital Limited <i>A licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO</i> Room 1606, 16th Floor, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Authorised representatives	Ms. AU Shuk Man (歐淑敏) <i>Certified Public Accountant</i> Flat E, 28th Floor Skyline Plaza Tsuen Wan New Territories Hong Kong Ms. PEI Wing Sze, Clare (費詠詩) Flat B, 26th Floor, Tower 5 Aria 51 Fung Shing Street Ngau Chi Wan Kowloon Hong Kong

CORPORATE INFORMATION

Members of Audit Committee	Mr. Law Yiu Sing (羅耀昇) (<i>Chairman</i>) Prof. Lam Sing Kwong Simon (林誠光) Ms. Wong Wai Ling (黃慧玲)
Members of Remuneration Committee	Prof. Lam Sing Kwong Simon (林誠光) (<i>Chairman</i>) Ms. Pei Wing Sze Clare (費詠詩) Mr. Law Yiu Sing (羅耀昇)
Members of Nomination Committee	Mr. Pei Wing Fu (費榮富) (<i>Chairman</i>) Prof. Lam Sing Kwong Simon (林誠光) Ms. Wong Wai Ling (黃慧玲)
Cayman Islands principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal banks	DBS Bank (Hong Kong) Limited 15th Floor One Island East 18 Westlands Road Island East Hong Kong Nanyang Commercial Bank, Limited 151 Des Voeux Road Central Hong Kong
Company website	www.drillcut.com.hk (information on this website does not form part of this prospectus)

INDUSTRY OVERVIEW

Certain facts, statistics and data presented in this section and elsewhere in this prospectus have been derived, in part, from various government official publications as well as the commissioned report from IPSOS, an independent third party. Whilst our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from these official government sources, such facts and statistics have not been independently verified by our Group, the Selling Shareholder or any of its respective affiliates or advisers, nor by the Sponsor, the Bookrunner, the Lead Manager, the Underwriter or any of their affiliates or advisers or any other party involved in the Placing. Our Directors have no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. In this section, other than the IPSOS Report, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by our Group. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the IPSOS Report which may qualify, contradict or have an impact on the information in this section.

SOURCES OF INFORMATION

We commissioned IPSOS, an independent market research consulting firm, to conduct an analysis of, and to report on, the concrete demolition industry in Hong Kong for the period from 2009 to 2018. A total fee of HK\$348,000 was paid to IPSOS for the preparation of the IPSOS Report. The IPSOS Report has been prepared by IPSOS independent of our Group's influence. The information and statistics set forth in this section have been extracted from the IPSOS Report. The payment of such amount was not conditional on our Group's successful listing or on the results of the IPSOS Report.

IPSOS has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong. IPSOS is part of a group of companies which employs approximately 16,000 personnel worldwide across 85 countries. IPSOS conducts research on market profiles, market sizes and market share and performs segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

The IPSOS Report includes information on the concrete demolition industry in Hong Kong. The information contained in the IPSOS Report is derived by means of data and intelligence gathering which include: (i) desk research; (ii) client consultation; and (iii) primary research, including interviews with key stakeholders and industry experts including concrete demolition work companies, main contractors, developers, architects, industry experts and government officials and associations in Hong Kong, etc.

Information gathered by IPSOS has been analysed, assessed and validated using IPSOS in-house analysis models and techniques. According to IPSOS, this methodology guarantees a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy.

INDUSTRY OVERVIEW

All statistics are based on information available as at the date of the IPSOS Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

IPSOS developed its estimates or forecasts on the following bases and assumptions: (i) the global economy is assumed to maintain a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or the wide outbreak of diseases to affect the demand and supply of construction services, including concrete demolition services, in Hong Kong during the forecast period.

CONSTRUCTION INDUSTRY OVERVIEW

The construction industry has contributed approximately 2.5% to 3.4% to the total gross domestic product of Hong Kong during the period between 2008 and 2013. The total gross output value of construction works performed by main contractors at construction sites increased from approximately HK\$52.3 billion in 2009 to approximately HK\$111.4 billion in 2013, representing a CAGR of approximately 20.8%.

Construction projects can be classified as public sector projects and private sector projects. The total gross output value from the public sector projects increased significantly during the period from 1989 to 2013, accounting for approximately 34.9% and 55.7% of the total gross output value of construction work in 1989 and 2013, respectively. It was mainly attributable to the implementation of the public housing development program. On the other hand, the total gross output value from private sector projects accounted for approximately 65.1% and 44.3% of the total gross output value of construction work in 1989 and 2013, respectively.

Generally, construction projects consist of four major parties including (i) developers; (ii) designers such as architects and engineers; (iii) contractors; and (iv) regulators such as the Hong Kong Housing Authority and Buildings Department. When main contractors secured construction projects from the developers, they usually break down the projects by work natures and then subcontract them to various subcontractors based on the ability and specialty of the subcontractors. The main contractor has full responsibility of overseeing the entire construction project carried out. Approximately 60.3% of the gross value of construction works in Hong Kong in 2013 was carried out by subcontractors in the construction industry. Meanwhile, both main contractors and subcontractors would approach their respective raw materials and equipment suppliers for respective needs depending on the nature of the projects.

CONCRETE DEMOLITION INDUSTRY OVERVIEW

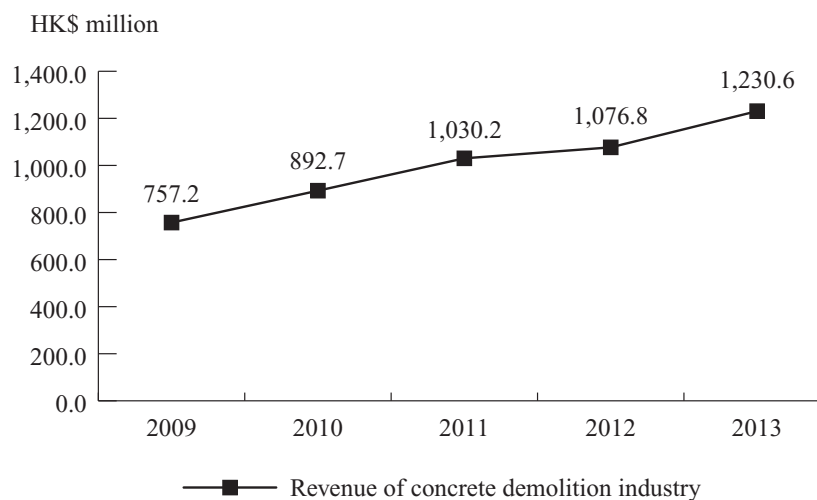
Concrete demolition industry is one of the specific area of the construction industry in Hong Kong, which mainly involves core drilling, sawing, bursting and crushing, and surface preparation. Concrete demolition services are usually functions performed by subcontractors in (i) general building works, especially for alteration and redevelopment project; and (ii) civil engineering works. There were approximately 20 concrete demolition contracting service providers in the construction industry in Hong Kong in 2013. The total revenue of

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the concrete demolition industry grew from approximately HK\$757.2 million in 2009 to approximately HK\$1,230.6 million in 2013. It was mainly attributable to the increases in general demand for concrete demolition services in Hong Kong as a result of the increases in the amount of general building works and civil engineering works in Hong Kong as further discussed below.

Revenue and market driver of the concrete demolition industry

Concrete demolition works usually applies to the construction of underground utilities, creation of openings for elevator, door, and window installation, redevelopment of buildings, roads, tunnels and underground facilities, removal of concrete during building construction, and the preparation of road surfaces. The total revenue of the concrete demolition industry in Hong Kong grew significantly from approximately HK\$757.2 million in 2009 to approximately HK\$1,230.6 million in 2013, representing a CAGR of about 12.9%. The significant growth in the total revenue of concrete demolition industry in Hong Kong in the past five years was mainly attributed to the infrastructure, residential buildings, and urban renewal development projects undertaken in Hong Kong. These key attributes are expected to remain to be the key drivers of the concrete demolition industry in Hong Kong for the next five years. The graph below shows the total revenue of concrete demolition industry in Hong Kong from 2009 to 2013:



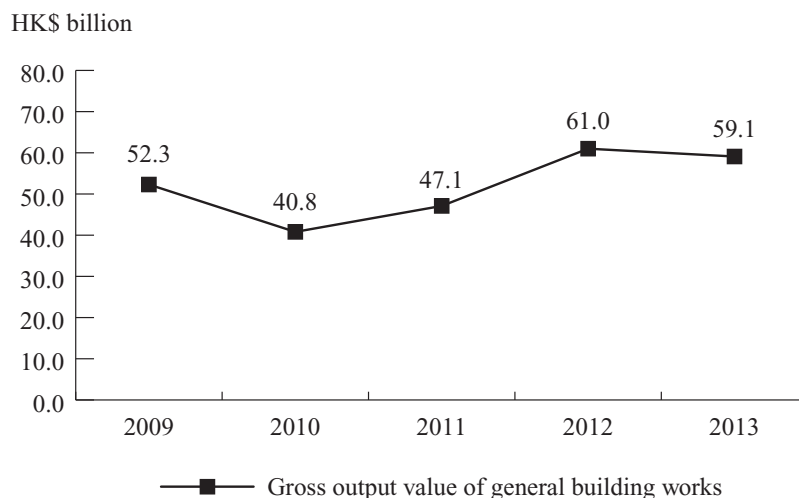
Total revenue of concrete demolition industry in Hong Kong from 2009 to 2013

Sources: Census and Statistics Department of the Government; IPSOS interviews and analysis

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Output value of general building works

The graph below shows the total gross output value of general building works in Hong Kong from 2009 to 2013:



Total gross output value of general building works in Hong Kong from 2009 to 2013

Notes: (1) Data includes construction of buildings, and building services installation and maintenance activities.

(2) Data includes gross value of construction works performed and other business receipts.

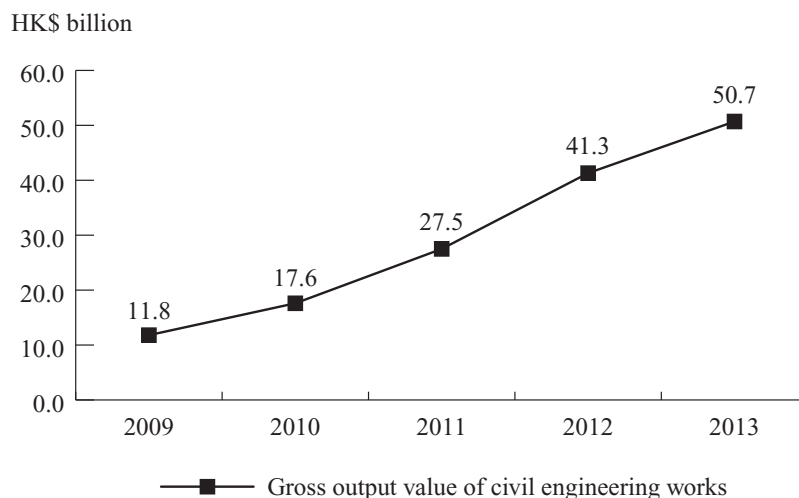
Source: Report on the Quarterly Survey of Construction Output, Census and Statistics Department of the Government; IPSOS Report

The increase in the total gross output value of general building works in Hong Kong from 2009 to 2013 was backed by the prosperous property market and the Government policy to increase both land and housing supply. The total gross output value of general building works in Hong Kong grew from approximately HK\$52.3 billion in 2009 to approximately HK\$59.1 billion in 2013, representing a CAGR of approximately 3.1%. According to the 2014 Policy Address, the Government has made clear plans for increasing both land and housing supply in the short, medium and long terms. These development plans would continue to support the demand for general buildings, thus, the demand for concrete demolition services in Hong Kong for the next five years.

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Output value of civil engineering works

The graph below shows the total gross output value of civil engineering works in Hong Kong from 2009 to 2013:



Total gross output value of civil engineering works in Hong Kong from 2009 to 2013

Note: Data refers to gross output value of civil engineering works in nominal terms performed by Main Contractors at construction sites

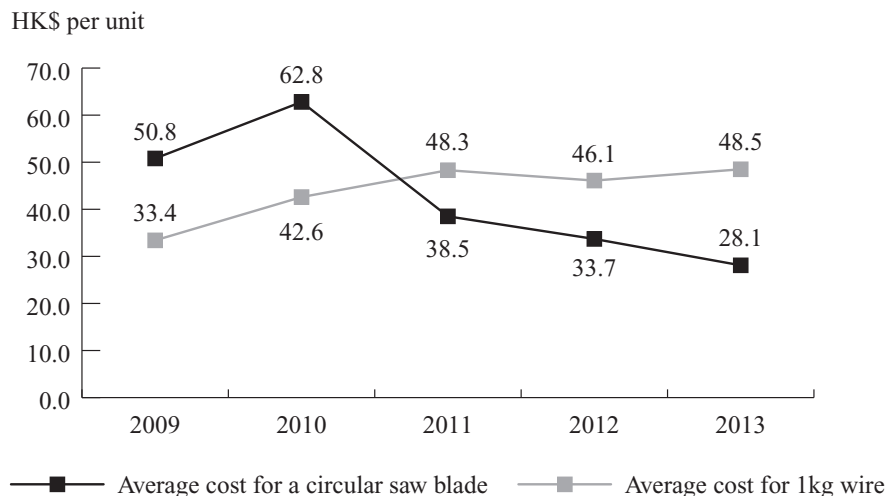
Source: Report on the Quarterly Survey of Construction Output, Census and Statistics Department of the Government; IPSOS Report

Total gross output value of civil engineering works in Hong Kong grew from approximately HK\$11.8 billion in 2009 to HK\$50.7 billion in 2013, representing a CAGR of approximately 43.9%. The growth was mainly attributable to the growth in the construction of infrastructure in Hong Kong. The ten major infrastructure projects announced by the government in 2007 has proved to be influential to the construction industry including the concrete demolition industry in Hong Kong from 2009 to 2013.

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Historical price trend of key machinery and tools

The average cost for wire grew from about HK\$33.4 per kg in 2009 to about HK\$48.5 per kg in 2013, representing a CAGR of about 9.8%. While the average cost for circular saw blade experienced a negative growth at a CAGR of around -13.8%, from around HK\$50.8 per unit in 2009 to around HK\$28.1 per unit in 2013 over the same period. Any variations in prices for wire and circular saw blade would result in variations in the prices for processed wire, such as cutting wire which is used in concrete cutting, and processed saw blade, such as flat saw blade and wall saw blade, respectively.



Average cost for circular saw blade and wire in Hong Kong from 2009 to 2013

Note 1: Circular saw blade includes circular saw blades with working part of steel and circular saw blades including parts.

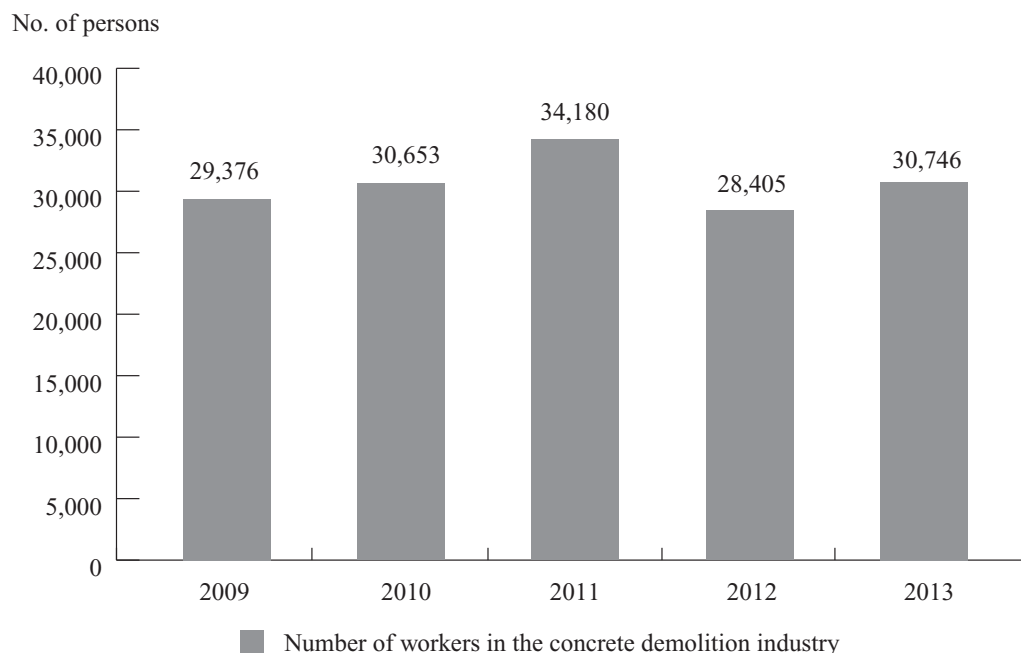
Note 2: Wire includes wire of iron or non-alloy steel not plated or coated whether or not polished, wire of iron or non-alloy steel plated or coated with zinc or other base metals, other wire of iron or non-alloy steel, wire of stainless steel, wire of other alloy steel, copper wire of refined copper, copper wire of copper alloys and aluminium wire.

Sources: Census and Statistics Department of the Government; IPSOS research and analysis

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Number of workers in the concrete demolition industry

The graph below shows the number of workers in the concrete demolition industry in Hong Kong from 2009 to 2013:



Number of workers in the concrete demolition industry in Hong Kong from 2009 to 2013

Note: The workers taken into account include the civil engineering, and demolition and site preparation sectors.

Sources: Census and Statistics Department of the Government; IPSOS research and analysis

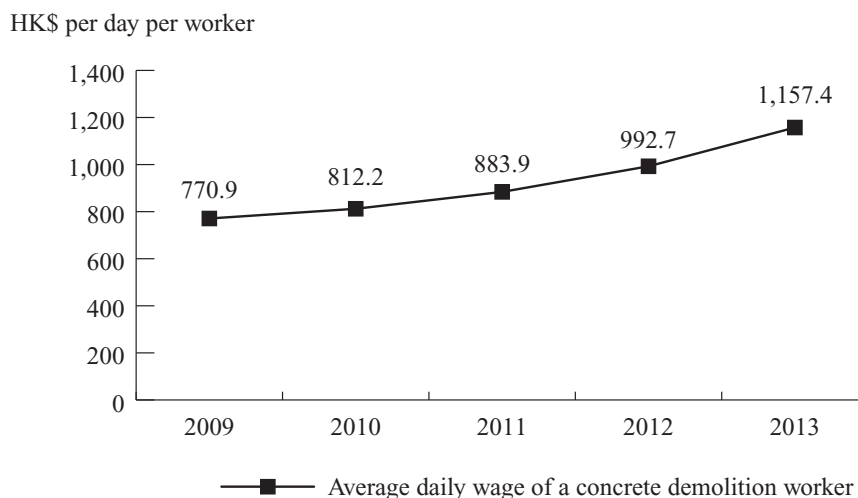
The total number of workers in the concrete demolition industry in Hong Kong grew from approximately 29,376 to 30,746 during the period from 2009 to 2013, representing a CAGR of approximately 1.1%. As the demand for both general building works and the civil engineering works experienced a CAGR growth of approximately 10.5% and 15.2% respectively over the period of 2009 to 2013, the demand for workers involved in performing construction works, including concrete demolition works, rose accordingly.

In addition, due to the increasing average daily wage of the workers in the concrete demolition industry in Hong Kong as discussed below, more workers are entering the industry.

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Average wage trend for workers in the concrete demolition industry

The graph below shows the average daily wage per worker in the concrete demolition industry in Hong Kong from 2009 to 2013:



Note: The types of labors taken into account include general workers and laborers, concretors, bar benders and fixers, metal workers, general welders, construction plant mechanics, electrical fitters, plant & equipment operators (load shifting), rock-breaking drillers, structural steel erectors, levelers, marble workers, structural steel welders, rigger/metal formwork erectors, asphalters (road construction), mechanical fitters and cable jointers.

Sources: Census and Statistics Department of the Government; IPSOS research and analysis

The increase in the average daily wage per worker was mainly caused by the shortage of local labor supply. The average daily wage per worker in the concrete demolition industry in Hong Kong grew from approximately HK\$770.9 in 2009 to approximately HK\$1,157.4 in 2013, representing a CAGR of approximately 10.7%. The construction industry in Hong Kong, including the concrete demolition industry, has always been facing the issue of labor shortage due to insufficient number of workers entering the industry. The growing demand of construction works has exacerbated the shortage issue, pushing up the daily wage of a worker in concrete demolition industry in Hong Kong from 2009 to 2013.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

Competitive landscape of concrete demolition industry

The concrete demolition contracting service providers mainly compete on (i) reputation and track record; (ii) availability of machinery; (iii) availability of workers and specialists; and (iv) reputation and relationships with customers.

- Reputation and track record is one of the primary selection basis for construction contractor to choose concrete demolition contracting service providers. They prefer concrete demolition contracting service providers who have (i) satisfactory safety performance; (ii) the ability to deliver timely services; and (iii) the ability to deliver good quality of work.

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- Concrete demolition works involve a lot of machinery and equipment, such as road saw machine, coring machine, shot-blasting machine, scarifying machine, portable crushing tool, remote controlled demolition robot etc. Concrete demolition contracting service providers can either rent or acquire the machinery and equipment needed. For concrete demolition contracting service providers who have their own machinery and equipment, they have a greater flexibility in resources allocation.

- Concrete demolition contracting service providers also compete on the availability of workers and specialists. The construction industry including the concrete demolition industry is labor-intensive in nature. In view of the overall labor shortage problem in the construction industry, having sufficient knowledgeable, experienced and capable workers is crucial to concrete demolition contracting service providers.

- According to the IPSOS Report, approximately 70% of concrete demolition projects or contracts are gained by referral. Hence, well-established presence and good relationships with customers is crucial for concrete demolition contract service providers to further expand their business.

Top 5 concrete demolition work companies in Hong Kong

In 2013, the total revenue of the concrete demolition industry in Hong Kong reached approximately HK\$1,230.6 million, increased by about 62.0% as compared to 2009. In 2013, there were in total about 20 concrete demolition contracting service providers in Hong Kong where the top 5 concrete demolition contracting service providers accounted for about 35.5% of the total revenue of the concrete demolition industry. The Group was the third largest concrete demolition contracting service providers in 2013, accounting for about 6.0% of the total revenue of the concrete demolition industry in Hong Kong.

Rank	Company	Revenue in 2013 in Hong Kong <i>(HK\$ million)</i>	Share of total industry revenue in Hong Kong	Number of projects completed/ involved in Hong Kong in 2013	Key product and service coverage
1	A company headquartered in Hong Kong	124.3	10.1%	Over 2,000	Coring, saw cutting, concrete crushing, bursting, dowel bar installation and floor treatment

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Rank	Company	Revenue in 2013 in Hong Kong <i>(HK\$ million)</i>	Share of total industry revenue in Hong Kong	Number of projects completed/ involved in Hong Kong in 2013	Key product and service coverage
2	A company headquartered in Hong Kong	96.0	7.8%	Over 2,000	Coring, sawing, concrete bursting and crushing, scarifying and grinding
3	Drillcut	74.4	6.0%	Over 2,000	Core drilling, sawing, bursting and crushing
4	A company headquartered in Hong Kong	72.6	5.9%	Over 2,000	Coring, saw cutting, concrete crushing, bursting
5	A company headquartered in Hong Kong	70.1	5.7%	Over 2,000	Coring, saw cutting, concrete crushing, bursting
Others		793.2	64.5%		
Total		1,230.6	100%		

Top 5 concrete demolition contracting service providers in Hong Kong in 2013

Sources: IPSOS interviews and analysis

Entry barriers of concrete demolition industry

Credibility

Credibility has a positive relationship with the success of concrete demolition companies. New entrants will find it hard to enter the industry as they do not have a good track record like the existing players do to show the potential customers that they can deliver their works with good quality on a timely manner. Therefore, there will be fewer business opportunities for new entrants as they have not established a good reputation and relationship with customers in the concrete demolition industry in Hong Kong.

High start-up costs

It requires a large amount of financial resources to operate a concrete demolition contracting service business in Hong Kong. New entrants have to recruit skilled labour for operation. It usually takes around 5 to 6 years for a worker to be fully trained and be able to operate machines such as excavators and road saw machines. Besides, new entrants have to

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acquire different types of machinery such as remote controlled demolition robots, coring machines, excavators, saw machines, splitting and bursting machines, concrete crushers in order to perform different types of concrete demolition work. Therefore, the significant initial capital commitment for equipment and operation can be an entry barrier to new entrants.

Competitive strength of our Group in the concrete demolition industry

Please refer to the section “Business – Competitive strengths” in this prospectus.

FUTURE TRENDS AND DEVELOPMENT

In view of the increasing population in Hong Kong, many buildings are built in a rather confined area. As such, there is limited space between buildings and the use of traditional demolition machines such as excavators and wire saw machines can be difficult. It is more flexible and economical to use remote controlled demolition robots. Remote controlled demolition robots are quiet with no fume and with minimal vibration. Also, the attachments of the robots are interchangeable according to different needs such as crushing and bursting. Besides, the operators can stay at a safe distance from location of demolition using a remote controlled demolition robots. Therefore, the use of remote controlled demolition robots is becoming a common demolition tool in the concrete demolition industry.

Besides, concrete demolition contracting service providers who have their own machinery now tend to build their own technical team for equipment maintenance and repair. They also work with machinery suppliers regarding the function, design and modification of removable components, such as button bits, to increase the flexibility in handling various practical needs in order to provide customised services.

OPPORTUNITIES AND THREATS

The growing development for railway and road infrastructure in Hong Kong presents opportunities for the concrete demolition industry. This is because tunnels are molded only after the concretes are excavated with a circular cross section. Most of the railway and road infrastructure projects require large demand for concrete demolition services. Therefore, the rising number of transport infrastructure projects will drive the concrete demolition industry in Hong Kong.

In addition, the increasing use of demolition robots in the industry presents opportunities for concrete demolition service providers with the ability to offer their services by making use of demolition robots. As mentioned above, with the increasing population in Hong Kong, more buildings are built in a rather confined area. As there is not much space between buildings, it has driven the use of demolition robots.

In Hong Kong, subcontractors generally own some sawing and drilling machinery that are easy to transport to different construction sites for minor concrete demolition works, such as hand-held crusher for concrete crushing and hydraulic splitters for bursting. Subcontractors tend to be in demand for concrete demolition services when the projects

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require the use of large scale sawing and drilling machinery for works like coring, wall sawing, and bursting and crushing. Therefore, if increasing number of subcontractors start to complete concrete demolition works by themselves, the growth of the concrete demolition industry may be hindered as those concrete demolition contracting service providers will be negatively affected.

REGULATORY OVERVIEW

THE LAWS AND REGULATIONS OF HONG KONG

This section summarises the principal laws and regulations of Hong Kong which are relevant to our Group's business. As this is a summary, it does not contain the detailed analysis of the Hong Kong laws which are relevant to our Group's business.

LAWS AND REGULATIONS IN RELATION TO CONSTRUCTION LABOUR, HEALTH AND SAFETY

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

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

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

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

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

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

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

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

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

An employer who fails to comply with any of the above provisions intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

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

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

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

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

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

Pursuant to Section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). Under Section 40(1B) of the Employees' Compensation Ordinance, where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the principal contractor and a subcontractor insured under the policy shall be regarded as having complied with Section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine of HK\$100,000 and to imprisonment for 2 years.

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

Pursuant to Section 43C of the Employment Ordinance, if any wages become due to the 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, such payment of wages is recoverable from the subcontractor pursuant to Section 43F of the Employment Ordinance.

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

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

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The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

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

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

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

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\$30 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

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

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

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

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

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial 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 Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) 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 Director of the Environmental Protection Department 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 Director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on 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.

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

The Waste Disposal Ordinance controls the production, storage, collection and disposal including treatment, reprocessing and recycling of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful deposition of waste is prohibited. Import and export of waste is generally controlled through a permit system.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, including without limitation the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, construction waste can only be disposed at designated prescribed facilities and a main contractor who undertakes construction work with a value of HK\$1 million or above will be required, within 21 days after being awarded the contract, to establish a billing account in respect of that particular contract with the Director of the Environmental Protection Department to pay any disposal charges for the construction waste generated from the construction work under that contract.

Under the Waste Disposal Ordinance, 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 Department. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such

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a permit or authorisation 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 2 years for a second or subsequent offence.

THE LAWS IN RELATION TO THE OPERATION OF MINOR WORKS

Minor Works Control System

Under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) (“**BO**”), the carrying out of large-scale building works or works of a very simple nature are governed by the same set of controls, including the requirements to obtain prior approval and consent from the Buildings Department before commencement of works and to appoint authorized persons (i.e., architects, engineers and surveyors registered under the BO), and registered professionals to design and supervise the works as well as registered contractors to carry out the works.

The BO was amended in 2008 to provide for a minor works control system. The Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) (“**B(MW)R**”) was passed by the Legislative Council in May 2009 to provide for a simplified control mechanism to facilitate the carrying out of minor works without prior approval of plans by the Buildings Department.

Classification of Minor Works

A total of 126 items of building works have been included as minor works under the B(MW)R. Detailed specifications for these 126 items of minor works are set out in Part 3 of Schedule 1 of the B(MW)R. These 126 items of minor works are classified into three classes according to their nature, scale, complexity and risk to safety.

- (1) Class I (total of 44 items) includes mainly those relatively more complicated minor works;
- (2) Class II (total of 40 items) comprises those of comparatively lower complexity and risk to safety; and
- (3) Class III (total of 42 items) mainly includes common household minor works.

Under each class of minor works, works are further classified into different types. There are 7 types of minor works corresponding to the specialisation of works in the industry:

- (1) Type A: Alteration & Addition Works
- (2) Type B: Repair Works
- (3) Type C: Works relating to Signboards
- (4) Type D: Drainage Works

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- (5) Type E: Works relating to Structures for Amenities
- (6) Type F: Finishes Works
- (7) Type G: Demolition Works

Details of the minor works items under each type of works are set out in Part 2 of Schedule 1 of the B(MW)R.

Register of Minor Works Contractors

In order to ensure that only contractors who are able to perform their duties and responsibilities in a competent manner are allowed to carry out the respective items of minor works, they are required to be registered under the BO.

Under s.8A(1)(c) of the BO, the Director of Buildings maintains a register of minor works contractors who are qualified to carry out such minor works belonging to the class, type and item specified in the register for which they are registered.

There are two types of registered minor work contractors, namely Registered Minor Works Contractors (Individual) (“**RMWCs (Ind)**”) and Registered Minor Works Contractors (Company) (“**RMWCs (Co)**”). RMWCs (Ind) are minor work contractors who are registered under s.10(1)(a) of the B(MW)R in the name of an individual self-employed worker. RMWCs (Ind) is only allowed to carry out various items of class III minor works. RMWCs (Co) are minor work contractors who are registered under s.10(1)(b) of the B(MW)R in the name of a company (including corporations, sole proprietorship and partnership) for carrying out various types and classes of minor works.

Requirements for registration as RMWC (Co)

Under s.12(5) of the B(MW)R, an applicant for registration as an RMWC(Co) must satisfy the Director of Buildings on the following aspects:

- (a) the appropriate qualifications and experience of its key personnel;
- (b) it has access to plants and resources;
- (c) if it is a corporation, its management structure is adequate;
- (d) the ability of the persons appointed to act for the applicant for the purposes of the BO to understand the minor works under application through relevant experience and a general knowledge of the basic statutory requirements; and
- (e) the applicant is suitable for registration in the register of minor works contractors.

REGULATORY OVERVIEW

Pursuant to s.12(6) of the B(MW)R, in deciding whether the applicant is suitable for registration in the register of minor works contractors, the Director of Buildings will take into account the following factors:

- (a) whether the applicant has any criminal record in respect of any offence under the laws of Hong Kong relating to the carrying out of any building works; and
- (b) whether any disciplinary order has been made against the applicant.

Authorised Signatory and Technical Director of RMWC (Co)

In considering each application for registration as an RMWC (Co), the Director of Buildings is to have regard to the qualifications, experience and suitability of the following key personnel of the applicant:

- (a) a minimum of one person appointed by the applicant to act for the applicant for the purposes of the BO hereinafter referred to as the Authorised Signatory (“AS”); and
- (b) for a corporation – a minimum of one director from the board of directors of the applicant, hereinafter referred to as the Technical Director (“TD”), who is authorised by the board to:
 - (i) have access to plants and resources;
 - (ii) provide technical and financial support for the execution of minor works; and
 - (iii) make decisions for the company and supervise the AS and other personnelfor the purpose of ensuring that the works are carried out in accordance with the BO.

Persons Eligible to be the AS or TD of RMWC (Co)

The following persons are eligible to become the AS and the TD of the applicant:

- (a) if the applicant is a sole proprietorship, the sole proprietor is the only person eligible to act as the AS.
- (b) if the applicant is a partnership, any partner appointed by all the other partners is eligible to act as the AS.
- (c) if the applicant is a corporation, a suitable person appointed by the board of directors is eligible to act as the AS, whereas the TD must be a director appointed under the Companies Ordinance and appointed by the board of directors to perform the role of TD.

REGULATORY OVERVIEW

A person is allowed to take up the role of the AS as well as the role of the TD of a corporation at the same time provided that he meets the requirements of both AS and TD.

To ensure that adequate supervision and proper management are provided for the carrying out of minor works and to avoid possible situations of conflict of interest, persons who have been accepted as the AS/TD for an RMWC (Co) cannot act as a key personnel for another contractor firm simultaneously.

Validity Period of Registration and Renewal of Registration

Pursuant to Section 13 of the B(MW)R, the registration as RMWC (Co) is valid for a period of three years commencing from the date of entry of the name in the register of minor works contractors maintained by the Director of Buildings. Under Section 14(1) and (2) of B(MW)R, an RMWC (Co) may apply to the Director of Buildings for renewal of registration within a period not earlier than 4 months and not later than 28 days prior to the expiry of the registration. A renewed registration will expire on the third anniversary of the expiry date of the previous registration.

HISTORY AND DEVELOPMENT

OUR GROUP STRUCTURE AND HISTORY

Overview

The history of our Group dated back to 1981 when Drillcut was incorporated. The founder of Drillcut was an independent third party. On 1 May 1991, Mr. Pei acquired, with his own funds generated from his prior business engagements, approximately 99.99% interests in Drillcut from the then shareholders. At all times during 1 May 1991 up to the Reorganisation, Mr. Pei directly held more than 50% interests in Drillcut. For further details regarding the shareholding in Drillcut, please refer to the sections “History and development – Our Group structure and history – Drillcut” and “History and development – Reorganisation” below in this prospectus. For further background and relevant industry experience of Mr. Pei, please refer to the section “Directors and senior management” in this prospectus.

Our Company was incorporated in the Cayman Islands on 25 April 2014 in anticipation of the Placing. We operate our business through Ultimate Expert and Drillcut, each a direct or indirect wholly-owned subsidiary of our Company. Ultimate Expert is an investment holding company and Drillcut is our operating subsidiary which performs our daily operation.

Major developments and milestones

The following table sets out the major developments and milestones of our Group since establishment:

1981	Drillcut was incorporated in Hong Kong on 5 May 1981. Mr. Pei was employed by Drillcut as a supervisor mainly responsible for supervising demolition works carried out at work sites.
1982	Mr. Pei was promoted by Drillcut to the position of project manager mainly responsible for the overall management of concrete demolition jobs as well as on-site supervision of works.
1991	Mr. Pei and Mrs. Pei acquired Drillcut from the then shareholders at an aggregate consideration of HK\$925,000.
1996	Drillcut became a member of Concrete Sawing & Drilling Association of the United States, which is an international association of contractors, manufacturers, distributors and affiliated member companies from the concrete construction and renovation industry with its headquarters based in the United States and its mission to promote professional sawing and drilling contractors and their methods.

HISTORY AND DEVELOPMENT

- 2002 Drillcut became a member of Hong Kong General Building Contractors Association, which is a non-profit making organisation in Hong Kong founded by a group of building contractors with a view to enhancing the contribution of the construction industry in the society, improving the quality of the work and providing resources to improve the standard of the industry and welfare to the members.
- 2006 We became registered under the Subcontractor Registration Scheme (then known as Voluntary Subcontractor Registration Scheme) of the Construction Industry Council as some of our customers, in particular main contractors of major public sector projects, require their subcontractors to be so registered before they would consider engaging the subcontractor.
- 2011 We became registered as a minor works contractor as we may participate in works that are classified as minor works pursuant to the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong).
- We purchased 4 sets of remote controlled demolition robots for use in performing our concrete demolition jobs as part of our investment to enhance our machinery and equipment and to increase our efficiency and productivity.
- We were granted a “Best performance of environmental award for the 1st quarter of 2011” by one of our major customers in recognition of our contributions to environmental protection at work and efforts in improving workplace environment.
- We were also granted a “Housekeeping award” by one of our major customers in recognition of Drillcut being elected as the best subcontractors in work site tidiness.
- 2012 We purchased an additional 4 sets of remote control multifunction robotic machines for use in performing our concrete demolition jobs as part of our investment to further enhance our machinery and equipment and to further increase our efficiency and productivity.
- 2014 Our Company was incorporated in the Cayman Islands as part of the Reorganisation for the purpose of the Listing.
- We purchased an additional 3 sets of remote control multifunction robotic machines for use in performing our concrete demolition jobs as part of our investment to further enhance our machinery and equipment and to further increase our efficiency and productivity.

HISTORY AND DEVELOPMENT

Our Company

Our Company was incorporated in the Cayman Islands on 25 April 2014 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares, with one subscriber Share allotted and issued nil-paid to the initial subscriber, an independent third party. On the same day, such subscriber Share was transferred to Power Key for nil consideration. 785 and 214 Shares were allotted and issued to Power Key and Talent Great at nil paid, on 25 April 2014 respectively. After the aforesaid allotment of Shares, the issued share capital of our Company was owned as to 78.6% and 21.4% by Power Key and Talent Great respectively.

Power Key is a company incorporated in the BVI on 21 February 2014 with limited liability which is the holding vehicle of Mr. Pei and Mrs. Pei and owned by Mr. Pei and Mrs. Pei as to 74.55% and 25.45% respectively. Talent Great is a company incorporated in the BVI on 19 February 2014 with limited liability which is the holding vehicle of Ms. Pei and wholly owned by Ms. Pei.

On 8 May 2014, as part of the Reorganisation, our Company (as purchaser) entered into a sale and purchase agreement with Power Key (as vendor and warrantor), Talent Great (as vendor and warrantor), Mr. Pei (as warrantor) and Ultimate Expert, pursuant to which our Company acquired 1,572 and 428 shares in Ultimate Expert which represent, in aggregate, its then entire issued share capital, from Power Key and Talent Great respectively, and as the consideration for which, the 786 and 214 nil-paid Shares held by Power Key and Talent Great were credited as fully paid respectively. The above transactions were completed on 8 May 2014 and as a result, Ultimate Expert and Drillcut became our subsidiaries.

On 2 August 2014, the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000.

As a result of the Reorganisation, our Company became the holding company of our Group, holding through our intermediate holding company, Ultimate Expert which holds our operating subsidiary, Drillcut. Our Company and Ultimate Expert are investment holding companies. Drillcut is our operating subsidiary principally engaged in provision of concrete demolition services.

Ultimate Expert

In anticipation of the Placing and the Reorganisation, Ultimate Expert, the intermediate holding company of our Group, was incorporated on 8 January 2014 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. 1 fully paid share in Ultimate Expert was allotted and issued to Mr. Pei on 25 February 2014 at par. 999 shares in Ultimate Expert were allotted and issued to Mr. Pei credited as fully paid on 10 April 2014 for repayment of the shareholder's loan in the amount of HK\$8,000,000 advanced by Mr. Pei to Ultimate Expert. After the aforesaid allotment and issue of shares, 1,000 shares, representing the then entire issued share capital of Ultimate Expert, were owned by Mr. Pei.

HISTORY AND DEVELOPMENT

On 29 April 2014, Power Key and Talent Great acquired 786 and 214 shares in Ultimate Expert, representing 78.6% and 21.4% of the then entire issued share capital of Ultimate Expert, from Mr. Pei, at a consideration of US\$786 and US\$214 in cash respectively which was determined with reference to the nominal value of the shares in Ultimate Expert. The above transactions were completed on 29 April 2014, the considerations for which were settled on 29 April 2014. After the aforesaid acquisition, the entire issued share capital of Ultimate Expert was owned as to 78.6% and 21.4% by Power Key and Talent Great respectively.

On 30 April 2014, 786 and 214 shares of Ultimate Expert were allotted and issued to Power Key and Talent Expert, credited as fully paid respectively, as consideration for the acquisition by Ultimate Expert of the total number of shares of Drillcut in issue from Mr. Pei, Mrs. Pei and Ms. Pei, further details of which are set out in the section “History and development – Drillcut” in this prospectus. After the aforesaid allotment and issue of shares, 1,572 and 428 shares, representing 78.6% and 21.4% of the then issued share capital of Ultimate Expert, were owned by Power Key and Talent Great respectively.

On 8 May 2014, pursuant to the sale and purchase agreement entered into among our Company (as purchaser), Power Key (as vendor and warrantor), Talent Great (as vendor and warrantor), Mr. Pei (as warrantor) and Ultimate Expert, Power Key and Talent Great transferred their respective 1,572 and 428 shares in Ultimate Expert to our Company, further details of which are set out in the section “History and development – Our Company” in this prospectus.

Drillcut

Drillcut is our operating subsidiary which commenced its business in concrete demolition in 1981. Drillcut is a company incorporated in Hong Kong on 5 May 1981 with limited liability. Its total number of shares in issue is 5,000,000 shares.

To set up his own business in the concrete demolition field, on 1 May 1991, Mr. Pei and Mrs. Pei acquired 349,999 shares and 1 share of Drillcut, representing in aggregate its then total number of shares in issue, at a consideration of HK\$924,997.36 and HK\$2.64 respectively, from the two then shareholders of Drillcut at the relevant time. All of such shareholders, save as being the former shareholders and/or directors of Drillcut, were independent third parties. As advised by Mr. Pei, the aforesaid share transfers were completed on 1 May 1991 and the consideration was settled on the same day. As advised by Mr. Pei, the consideration was determined at arm’s length negotiation between the parties.

As family arrangements, the following transfers and allotment and issue of shares of Drillcut were effected:

- (i) On 8 May 1995, Mr. Pei transferred 70,000 and 70,000 shares in Drillcut to each of Mr. Pei Wing Kwai (費榮貴) and Mr. Bay Wing Wo (費榮和), both of whom are brothers of Mr. Pei respectively, at a consideration of HK\$70,000 and HK\$70,000 respectively, which was determined with reference to the then par value of the shares. The aforesaid share transfers were completed on 8 May 1995. As advised by Mr. Pei, the consideration was settled in cash on the same day.

HISTORY AND DEVELOPMENT

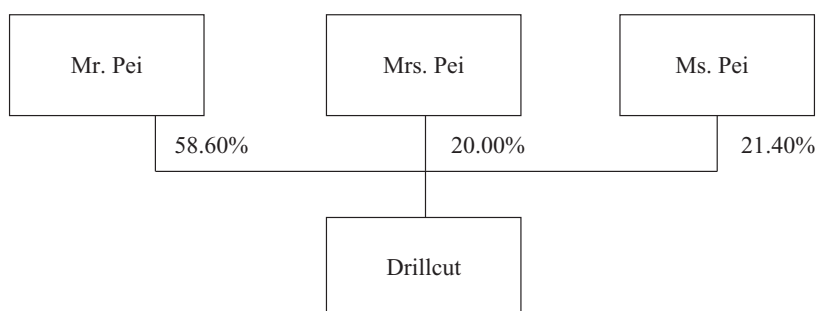
- (ii) On 1 August 2005, 2,650,000, 1,000,000 and 1,000,000 shares in Drillcut were allotted and issued to Mr. Pei, Mrs. Pei and Ms. Pei at the then par value of the shares respectively.
- (iii) On 5 August 2005, Mr. Pei Wing Kwai transferred his 70,000 shares in Drillcut to Ms. Pei, at a consideration of HK\$70,000, which was determined with reference to the then par value of the shares and the acquisition cost of such shares by Mr. Pei Wing Kwai. The aforesaid share transfer was completed on 5 August 2005. As advised by Ms. Pei, the consideration was settled in cash on the same day.
- (iv) On 3 March 2014, Mr. Bay Wing Wo transferred his 70,000 shares in Drillcut to Mr. Pei, at a consideration of HK\$70,000, which was determined with reference to the acquisition cost of such shares by Mr. Bay Wing Wo. The aforesaid share transfer was completed on 3 March 2014. As advised by Mr. Pei, the consideration was settled in cash on the same day.

As a result of the above transfers and allotment and issue of shares, Mr. Pei, Mrs. Pei and Ms. Pei held 2,929,999, 1,000,001 and 1,070,000 shares in Drillcut respectively, which represent approximately 58.6%, 20% and 21.4% of the then total number of shares of Drillcut in issue.

In anticipation of the Placing and the Reorganisation, on 30 April 2014, Ultimate Expert acquired 2,929,999, 1,000,001 and 1,070,000 shares in Drillcut, representing in aggregate, the then total number of shares of Drillcut in issue, from Mr. Pei, Mrs. Pei and Ms. Pei respectively, and in consideration of which, Ultimate Expert allotted and issued 786 and 214 shares to Power Key and Talent Great, credited as fully paid respectively. The aforesaid acquisition of Ultimate Expert was completed on 30 April 2014 and as a result, Drillcut became a directly wholly-owned subsidiary of Ultimate Expert.

REORGANISATION

The following chart sets forth the corporate and shareholding structure of our Group immediately prior to the Reorganisation:



HISTORY AND DEVELOPMENT

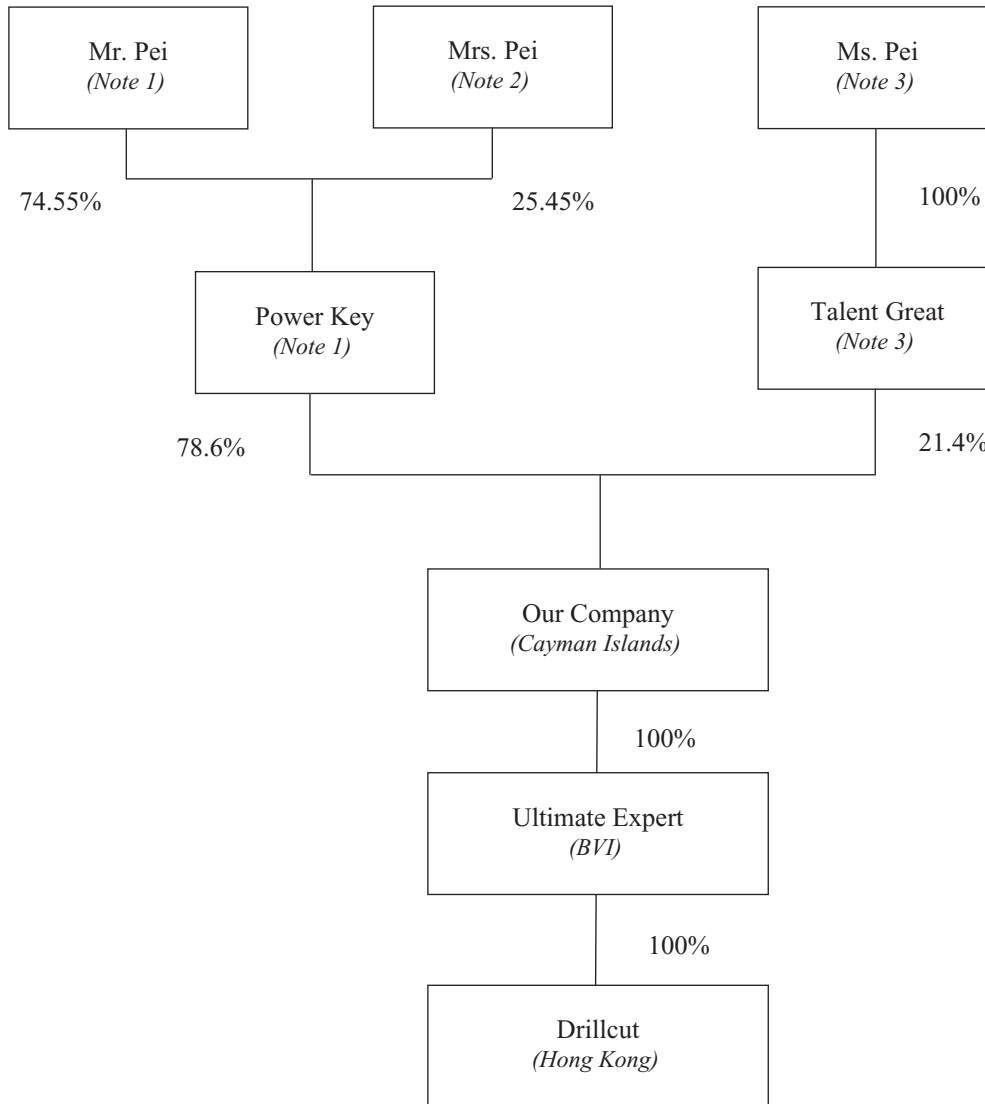
In preparation for the listing of our Shares on GEM, our Group underwent the Reorganisation, the major steps of which include:

- (i) Ultimate Expert was incorporated on 8 January 2014 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. 1 fully paid share was allotted and issued to Mr. Pei on 25 February 2014. 999 fully paid shares in Ultimate Expert were allotted and issued to Mr. Pei on 10 April 2014;
- (ii) our Company was incorporated in the Cayman Islands on 25 April 2014 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares, with one subscriber Share allotted and issued nil-paid to the initial subscriber, an Independent Third Party. On the same day, such subscriber Share was transferred to Power Key for nil consideration;
- (iii) on 25 April 2014, 785 and 214 Shares were allotted and issued to Power Key and Talent Great at nil paid respectively;
- (iv) on 29 April 2014, Power Key and Talent Great acquired 786 and 214 shares in Ultimate Expert, representing in aggregate, the then entire issued share capital of Ultimate Expert, from Mr. Pei, at a consideration of US\$786 and US\$214 respectively;
- (v) on 30 April 2014, Ultimate Expert acquired 2,929,999, 1,000,001 and 1,070,000 shares in Drillcut, representing in aggregate, the then total number of shares of Drillcut in issue, from Mr. Pei, Mrs. Pei and Ms. Pei respectively, and in consideration of which, Ultimate Expert allotted and issued 786 and 214 shares to Power Key and Talent Great respectively; and
- (vi) On 8 May 2014, our Company (as purchaser) entered into a sale and purchase agreement with Power Key (as vendor and warrantor), Talent Great (as vendor and warrantor), Mr. Pei (as warrantor) and Ultimate Expert, pursuant to which our Company acquired 1,572 and 428 shares in Ultimate Expert which represent, in aggregate, its then entire issued share capital, from Power Key and Talent Great respectively, and as consideration for which, the 786 and 214 nil-paid Shares held by Power Key and Talent Great respectively, were credited as fully paid.

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

HISTORY AND DEVELOPMENT

The following chart sets forth our corporate and shareholding structure immediately following completion of the Reorganisation:

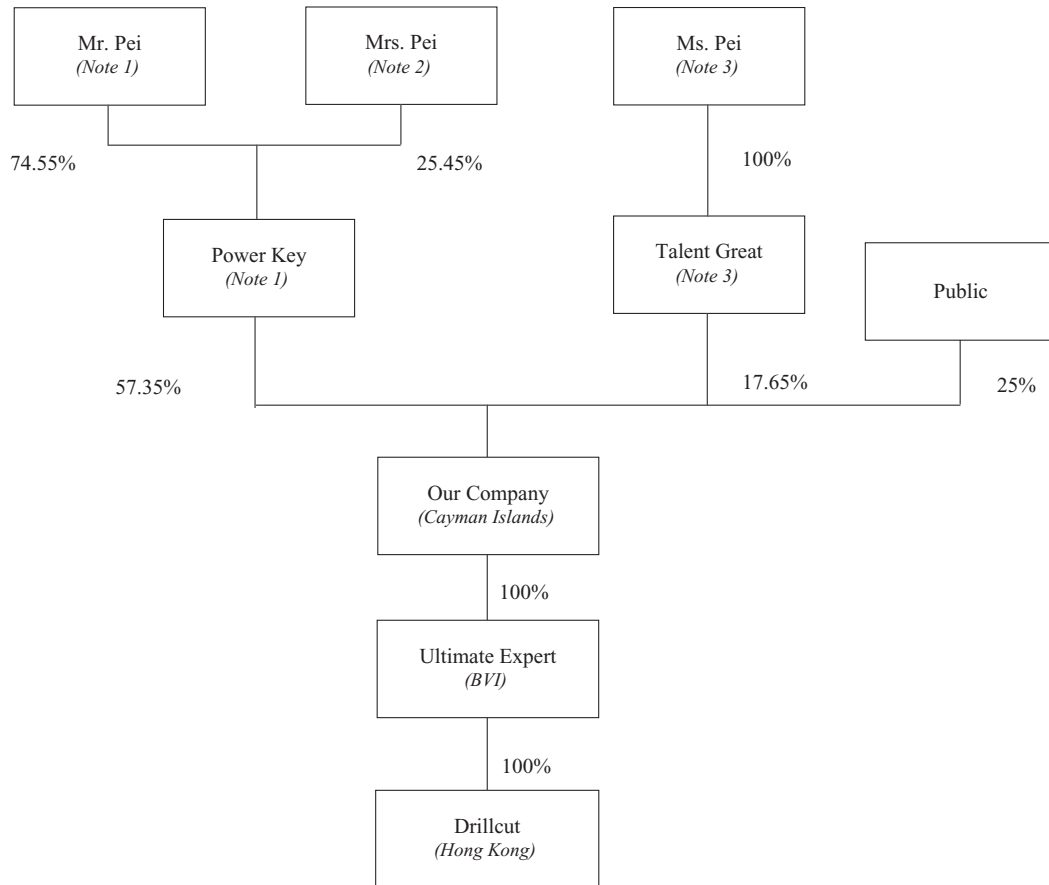


Notes:

1. Power Key is an investment holding company incorporated in the BVI. Mr. Pei is an executive Director, the chairman of our Company and the sole director of Power Key.
2. Mrs. Pei is the spouse of Mr. Pei and does not participate in the daily operations of our Group.
3. Talent Great is an investment holding company incorporated in the BVI. Ms. Pei is the daughter of Mr. Pei and Mrs. Pei. Ms. Pei is also an executive Director and the sole director of Talent Great.

HISTORY AND DEVELOPMENT

The following chart sets forth our corporate and shareholding structure immediately following completion of the Placing and the Capitalisation Issue, taking no account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme:



Notes:

1. Power Key is an investment holding company incorporated in the BVI. Mr. Pei is an executive Director, the chairman of our Company and the sole director of Power Key.
2. Mrs. Pei is the spouse of Mr. Pei and does not participate in the daily operations of our Group.
3. Talent Great is an investment holding company incorporated in the BVI. Ms. Pei is the daughter of Mr. Pei and Mrs. Pei. Ms. Pei is also an executive Director and the sole director of Talent Great.

BUSINESS

OVERVIEW

We are principally engaged in the provision of concrete demolition services in Hong Kong as subcontractor. Our concrete demolition services are mainly required in the removal of pieces or sections of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing, depending on the situation. Our services are required in many different situations including, among others, addition and alteration works and redevelopment projects in buildings, roads, tunnels and underground facilities.

We undertake jobs of considerably different scales, ranging from a core drilling job (i.e. the making of circular cuts in a concrete structure) which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete. For further information regarding our concrete demolition services, please refer to the section “Business – Concrete demolition services” in this prospectus.

Our Group’s revenue is principally derived from fees for our concrete demolition services. Our customers primarily include main contractors and subcontractors of various different types of construction and civil engineering projects in Hong Kong. Such projects can generally be categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractors are employed by Government departments or statutory bodies in Hong Kong, while private sector projects refer to projects that are not public sector projects. The following table sets out a breakdown of our Group’s revenue during the Track Record Period attributable to public and private sector projects:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
	(unaudited)							
Private sector projects	35,950	63.2	49,557	66.6	8,832	59.9	14,811	71.3
Public sector projects	<u>20,925</u>	<u>36.8</u>	<u>24,837</u>	<u>33.4</u>	<u>5,918</u>	<u>40.1</u>	<u>5,969</u>	<u>28.7</u>
Total	<u><u>56,875</u></u>	<u><u>100.0</u></u>	<u><u>74,394</u></u>	<u><u>100.0</u></u>	<u><u>14,750</u></u>	<u><u>100.0</u></u>	<u><u>20,780</u></u>	<u><u>100.0</u></u>

For further information regarding our customers, please refer to the section “Business – Customers” in this prospectus.

We possess our own machinery and equipment for performing different types of concrete demolition work and therefore are not materially reliant on third party for machinery rental. Our owned machinery and equipment include, among others, remote controlled demolition robots, wall saw machines, wire saw machines, coring machines, cutting tools, hydraulic breakers, road saw machines, electric drills and excavators. We believe that our investment in machinery and equipment has placed us in a position to cater for concrete demolition jobs of different scales and complexity and to meet the expected

BUSINESS

growing demand in major infrastructure and building developments in Hong Kong in the foreseeable future. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, we acquired new machinery in the amount of approximately HK\$7.0 million, HK\$4.9 million and HK\$0.8 million respectively. For further information regarding our machinery, please refer to the section “Business – Machinery” in this prospectus.

We either carry out our work with our own equipment and labour resources, or further subcontract to other subcontractors after taking into consideration our available labour resources and the opportunity cost of performing the work with our own resources. The following table sets out the relevant amount of subcontracting charges incurred by our Group during the Track Record Period:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Subcontracting charges	15,392	19,356	2,874	4,058

For further information regarding our subcontracting arrangement, please refer to the section “Business – Subcontracting” in this prospectus.

Apart from subcontracting, we also require various goods and services in order to perform our works. Our suppliers primarily include suppliers of (i) materials and consumables such as saw blades, cutting wires, bolts and screws; and (ii) miscellaneous services such as the transportation of wastes to landfills and the rental of crane lorry for the lifting of cut-out sections of concrete. For further information regarding our suppliers, please refer to the section “Business – Suppliers” in this prospectus.

MARKET AND COMPETITION

According to the IPSOS Report, the concrete demolition industry in Hong Kong is dominated by the top 5 players including Drillcut, which together accounted for approximately 35.5% of the total revenue of the Hong Kong concrete demolition industry in 2013. Drillcut, our principal operating subsidiary, ranked third, sharing approximately 6.0% of the total revenue of the Hong Kong concrete demolition industry in 2013. For further information regarding the competitive landscape of the industry in which we operate, please refer to the section “Industry overview” in this prospectus.

BUSINESS

COMPETITIVE STRENGTHS

We believe that we have several business strengths that set us apart from our competitors and enable us to continue our growth and enhance our profitability. Such competitive strengths include:

Well-established presence in the concrete demolition industry in Hong Kong

Drillcut, our principal operating subsidiary, has been operating in the concrete demolition industry in Hong Kong since 1981. Drillcut is registered as a member of Concrete Sawing & Drilling Association of the United States in 1996, a member of the Hong Kong General Building Contractors Association since 2002, a member of the Green Cross Group established by the Occupational Safety and Health Council in Hong Kong since 1999, and a member of Registered Minor Works Contractor Signatory Association Limited in Hong Kong since 2012. In addition, Drillcut has been registered in the Subcontractor Registration Scheme of the Construction Industry Council in Hong Kong since 2006 and it has also been registered as a Registered Minor Works Contractor in Hong Kong since 2011.

Throughout our operating history, we believe that we have established good and long-standing business relationships with numerous contractors in the construction and civil engineering industry in Hong Kong, including our existing and potential customers and our subcontractors. Our business relationships with our top 5 customers for each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 ranges from approximately 2 years to 18 years, 1 year to 19 years, and 1 year to 19 years respectively.

According to the IPSOS Report, we have built up a strong presence in the concrete demolition industry and have established good and close relationships with main contractors especially involving in the construction and civil engineering industry in Hong Kong. The IPSOS Report also states that in the concrete demolition industry in Hong Kong, currently about 70% of concrete demolition jobs or contracts of the concrete demolition contracting service providers are granted by referral, and that our well-established presence in the concrete demolition industry enables us to develop long-standing relationships with main contractors and hence is an advantage to us in terms of the possibility in winning jobs.

Based on the above, we consider that we have a well-established presence in the concrete demolition industry in Hong Kong. We believe that such well-established presence in the industry and our long-standing business relationships with our existing and potential customers are crucial to the day-to-day business operations and future business development of our Group.

Possession of a variety of machinery for concrete demolition work

Unlike some of the concrete demolition service providers in Hong Kong, we possess our own machinery and equipment for performing different types of concrete demolition work and therefore are not materially reliant on third party for machinery rental. Our owned machinery and equipment include, among others, remote controlled demolition robots, wall saw machines, wire saw machines, coring machines, cutting tools, hydraulic breakers, road saw machines, electric drills and excavators. Our machinery and equipment were mainly

BUSINESS

manufactured in Europe and the United States. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our machinery rental cost amounted to approximately HK\$1.4 million, HK\$0.3 million and HK\$35,000 respectively, which included approximately HK\$0.6 million paid to Grandwin, a related party, in 2012 as described in the section “Connected transaction – Discontinued related party transactions” in this prospectus. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, we acquired new machinery in the amount of approximately HK\$7.0 million, HK\$4.9 million and HK\$0.8 million at cost respectively.

In late 2011, we purchased 4 sets of remote controlled demolition robots for use in the performance of concrete demolition works. As at the beginning of the Track Record Period, we had 4 sets of remote controlled demolition robots, being those purchased in late 2011 as aforementioned. We purchased an additional 4 sets of remote controlled demolition robots in 2012 and a further 3 sets in May 2014, bringing our total number of such machines to 11 sets as at the Latest Practicable Date. Our Directors consider that the use of remote controlled demolition robots is consistent with the latest developments in the concrete demolition industry in relation to demolition machinery and techniques as stated in the IPSOS Report. In addition, our Directors consider that the use of remote controlled demolition robots can effectively minimise risks associated with work safety because it allows workers to keep at a safe distance when performing concrete demolition works.

We believe that our investment in machinery and equipment has placed us in a position to cater for concrete demolition jobs of different scales and complexity and to meet the expected growing demand in major infrastructure and building developments in Hong Kong in the foreseeable future. Our Directors also consider that being in possession of our own machinery and equipment at our disposal allows us to devise suitable demolition plans and apply suitable demolition methods specifically tailored to different needs and requirements of different customers, as well as enables us to efficiently and effectively schedule our job orders and deploy our manpower.

In-house mechanics to repair and maintain our machinery

We have a team of in-house mechanics who are capable of repairing and maintaining our machinery. As at the Latest Practicable Date, our team of in-house mechanics consisted of 9 employees, who possessed up to approximately 30 years of experience in repairing and maintaining machinery. Our team of in-house mechanics also includes 2 licensed electricians who are permitted to perform installation, maintenance and certification of design for certain electrical work.

Our in-house mechanics are capable of replacing the worn-out or malfunctioning parts and components of a machine when necessary instead of replacing the entire machine with a new one. Having the capability of doing so allows us to extend the usable life of our machinery and is more cost-effective than replacing the entire machine.

In addition, our Directors consider that sending malfunctioning or out-of-order machinery to suppliers for examination and repairing can be time-consuming as the process is inevitably subject to suppliers’ service availability and capacity and may incur additional

BUSINESS

time for waiting for suppliers' responses and return of repaired machinery. On the contrary, our Directors consider that examination and repairing by our in-house mechanics is less time-consuming in view of the aforesaid reasons and therefore can shorten the period of time during which a malfunctioning or out-of-order machine remains unusable.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our position as an established concrete demolition service provider in Hong Kong. We intend to achieve our business objective by pursuing the following key strategies:

Further enhancing our machinery and equipment

We intend to acquire additional concrete demolition machinery and equipment so as to enhance our technical ability and to strengthen our capability to cater for different needs and requirements of different customers. Such machinery and equipment include but not limited to remote controlled demolition robots, wall saw machines, wire saw machines and coring machines. In particular, we intend to further increase our use of remote controlled demolition robots, which is expected to further enhance our service efficiency and safety.

Our expected capital expenditures for the purchase of additional machinery and equipment and our future plan in this regard from the Latest Practicable Date up to 31 December 2016 are as follows:

	Additional machinery and equipment intended to be purchased	Expected amount of capital expenditures
From the Latest Practicable Date to 31 December 2014	Electric wall saw machines and other equipment, tools and accessories	HK\$4.9 million
From 1 January 2015 to 30 June 2015	1 set of remote controlled demolition robots as well as other concrete demolition machinery, equipment, tools and accessories	HK\$6.5 million
From 1 July 2015 to 31 December 2015	–	–
From 1 January 2016 to 30 June 2016	Concrete demolition equipment, tools and accessories	HK\$2.0 million
From 1 July 2016 to 31 December 2016	1 set of remote controlled demolition robot	HK\$3.0 million
	Total	<u>HK\$16.4 million</u>

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It is the current intention of our Directors that all of the aforementioned expected capital expenditures for the purchase of additional machinery and equipment will be financed by the net proceeds from the Placing.

Further strengthening our manpower

We consider that a team of skilled workers equipped with appropriate knowledge and experience in operating different types of concrete demolition machinery as well as a strong team of skilled mechanics capable of repairing and maintaining our machinery are crucial to our continuing success. We intend to expand our labour resources by recruiting more skilled workers and mechanics in order to cope with our business development and our planned purchases of additional machinery and equipment.

In addition, we intend to arrange more training courses for our workers on different types of concrete demolition methods, operation of different types of machinery, as well as work safety. Such training courses include internal training as well as courses organised by external parties such as our machinery manufactures and other training providers.

Increasing our marketing efforts

During the Track Record Period, we secured new businesses mainly through direct invitation for quotation by customers. Apart from direct invitations by customers, we also explore new business opportunities by checking for any new construction or engineering projects in Hong Kong through subscription of relevant industry database and sending our marketing materials to potential customers when opportunity arises. We have also placed advertisements and sponsored certain events in the engineering and construction industry in Hong Kong to promote awareness of our Group. We intend to further increase our marketing efforts by approaching potential customers more actively to secure new business opportunities. We also intend to place additional advertisements and sponsor more events in the construction and civil engineering industry in Hong Kong in order to further increase industry players' awareness of our Group and further strengthen our presence in the concrete demolition industry in Hong Kong.

Implementation of business strategies

As at the Latest Practicable Date, we have not identified any target for acquisition and do not have any acquisition plan.

For further details on the implementation of the above-mentioned business strategies, please refer to the section "Future plans and use of proceeds" in this prospectus.

BUSINESS

CONCRETE DEMOLITION SERVICES

Overview

We are principally engaged in the provision of concrete demolition services in Hong Kong as subcontractor. Our concrete demolition services are mainly required in the removal of pieces or sections of concrete from concrete structures by applying a variety of demolition methods depending on the application. Such methods include, among others:

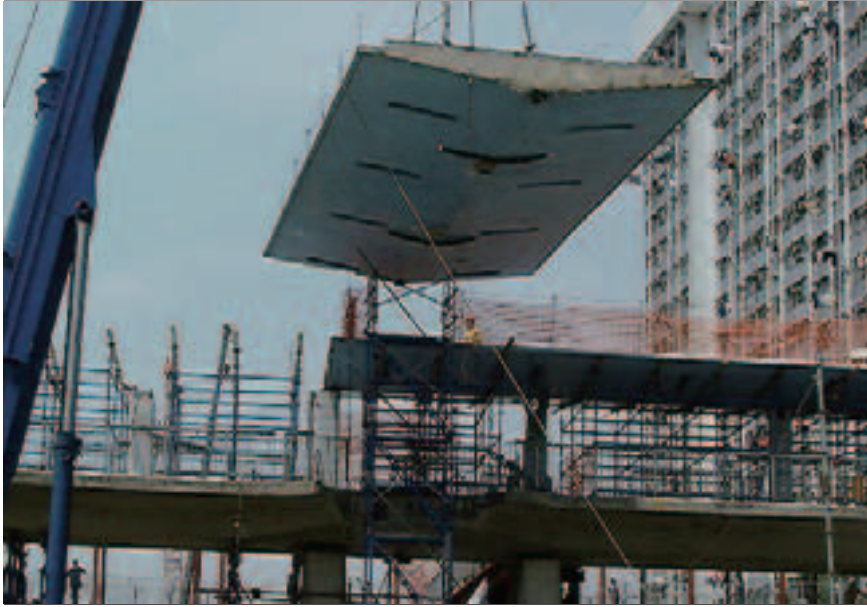
- (i) core drilling, which refers to the process of making circular cuts in concrete structures resulting in the making of smooth circular openings for other applications, such as the installation of plumbing or other utilities systems, and/or the removal of a cylindrical piece of concrete for concrete sample analysis, and/or the removal of unnecessary concrete during the course of construction of buildings or infrastructure;





- (ii) sawing, which refers to the process of cutting sections of concrete in concrete structures resulting in the creation of openings of desired shapes in concrete walls, ceilings or floors, and/or the demolition and removal of sections of concrete from concrete structures for various purposes, such as the installation of elevators, doors or windows, the removal of unnecessary concrete during the course of construction of building and infrastructure, or in addition and alteration works or redevelopment projects in buildings, roads, tunnels and underground facilities; and





- (iii) bursting and crushing, which refer to the process of concrete demolition by applying pressures to crack and break concrete into pieces in order to demolish and remove concrete structures for other situations such as those described above.





Our typical job involves one or a combination of concrete demolition methods depending on the purpose and application. Depending on the complexity of the job, we may also devise a demolition proposal tailored to customers' needs and requirements outlining the methods and machinery that we consider suitable for use in performing our work.

Types of jobs undertaken

We undertake jobs of considerably different scales, ranging from a core drilling job which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete.

BUSINESS

During each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, we undertook a total of 2,628, 2,675, 577 and 595 jobs respectively. To illustrate the different scales of jobs undertaken by us, the following table shows a breakdown of our jobs undertaken during the Track Record Period by range of income:

Income derived from the job	Number of jobs			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$5,000 (<i>Note 1</i>)	1,381	1,409	320	278
HK\$5,000 to below HK\$50,000	1,077	1,034	212	244
HK\$50,000 to below HK\$200,000	128	175	33	56
HK\$200,000 to below HK\$500,000	25	38	7	13
HK\$500,000 to below HK\$1,000,000	10	11	3	2
HK\$1,000,000 or above (<i>Note 2</i>)	7	8	2	2
Total number of jobs undertaken during the year/period	2,628	2,675	577	595

Notes:

- For each of the two years ended 31 December 2012 and 2013, the minimum amount of fee charged per job was HK\$288 and HK\$200 respectively. For the three months ended 31 March 2013 and 2014, the minimum amount of fee charged per job was HK\$200 and HK\$800 respectively.
- For each of the two years ended 31 December 2012 and 2013, the maximum amount of fee charged per job was approximately HK\$3.3 million and HK\$3.9 million respectively. For the three months ended 31 March 2013 and 2014, the maximum amount of fee charged per job was approximately HK\$1.9 million and HK\$2.9 million respectively.

In general, job awarded to us represents part of a construction or engineering project. Such projects can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractor is employed by Government departments or statutory bodies, while private sector projects refer to projects that are not public sector projects. The following table sets out a breakdown of our Group's revenue during the Track Record Period attributable to public and private sector projects:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Private sector projects	35,950	63.2	49,557	66.6	8,832	59.9	14,811	71.3
Public sector projects	20,925	36.8	24,837	33.4	5,918	40.1	5,969	28.7
Total	56,875	100.0	74,394	100.0	14,750	100.0	20,780	100.0

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Pursuant to the IPSOS Report, the number and availability of public and private sector projects in Hong Kong are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the Hong Kong property markets, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure, which may in turn affect our businesses and financial performance in general. As the Government tends to increase public investment in infrastructures during a downturn in the private sector, as a diversification strategy, we seek for jobs in both public and private sector projects so as to avoid significant adverse impact on our operation in the event of a downturn in either sector.

As we undertake jobs of considerably different scales, the revenue contribution from each customer to us varies significantly:

Range of revenue contribution during each year	Number of customers			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$100,000	549	494	213	195
HK\$100,000 to below HK\$500,000	70	74	27	34
HK\$500,000 to below HK\$1,000,000 (Note)	15	20	2	9
HK\$1,000,000 or above (Note)	12	15	2	2
Total number of customers with revenue contribution to us for the year/period	<u>646</u>	<u>603</u>	<u>244</u>	<u>240</u>

Note: For each of the years ended 31 December 2012 and 2013, the number of customers with revenue contribution of “HK\$500,000 to below HK\$1,000,000” and “HK\$1,000,000 or above” was higher than the number of jobs with revenue of the same ranges. This was because some of the customers with revenue contribution of “HK\$500,000 to below HK\$1,000,000” and “HK\$1,000,000 or above” placed multiple job orders of smaller amounts to us instead of placing job orders which amounted to “HK\$500,000 to below HK\$1,000,000” or “HK\$1,000,000 or above”.

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The following tables set out the nature of principal jobs undertaken for our 10 largest customers during each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 in terms of revenue contribution to our Group:

For the year ended 31 December 2012

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the year <i>HK\$'000</i>	% of total revenue of our Group for the year <i>%</i>
1	Main contractor of a public sector project involving the re-construction and the widening of a flyover highway	23	Demolition of unwanted part of the existing bridge as well as the temporary bridge by cutting the bridges into manageable sections and removing them	4,356	7.7
2	Main contractor of a private sector project involving the construction of a commercial building	5	Removal of unwanted concrete in the foundation for the creation of openings for the installation of grout pipes for purpose of site formation	3,352	5.9
3	Main contractor of a private sector project involving the construction of underground railways and railway stations	23	Removal of unwanted concrete for the creation of openings for electrical and mechanical services	2,776	4.9
4	Main contractor of a public sector project involving alteration and addition works (specifically, the expansion of shopping areas) in an airport terminal	13	Demolition of existing unwanted concrete structures including part of the existing beam and slab	2,493	4.4
5	Main contractor of a public sector project involving the renovation of a power station and its associated administration block	2	Demolition of certain unwanted concrete structures including external finishing and sun shade screen	2,083	3.7
6	Main contractor of a public sector project involving road works and replacement of underground utilities	211	Removal of existing road surface by road sawing and carrying away the removed sections	1,813	3.2
7	Main contractor of a private sector project involving the construction of underground railways and railway stations	3	Removal of existing unwanted structures for tunnel lining	1,657	2.9
8	Main contractor of a public sector project involving the widening of a flyover highway	33	Demolition of unwanted part of the existing bridge as well as the temporary bridge by cutting the bridges into manageable sections and removing them	1,320	2.3

BUSINESS

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the year <i>HK\$'000</i>	% of total revenue of our Group for the year %
9	Main contractor of a private sector project involving alteration and addition works in a hotel building	42	Demolition of certain external walls and staircases for the re-construction of curtain windows for better appearance	1,302	2.3
10	Main contractor of a public sector project involving the construction of a sludge treatment facility	3	Removal of unwanted concrete for the creation of openings for electrical and mechanical services	1,276	2.2

For the year ended 31 December 2013

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the year <i>HK\$'000</i>	% of total revenue of our Group for the year %
1	Main contractor of a private sector project involving the construction of a new cross-harbour railway and associated railway stations	44	Removal of unwanted concrete for the creation of openings for the installation of pipe piles in relation to site formation	5,548	7.5
2	Main contractor of a public sector project involving the widening of a flyover highway	40	Demolition of unwanted part of the existing bridge as well as the temporary bridge by cutting the bridges into manageable sections and removing them	4,334	5.8
3	Main contractor of a private sector project involving the redevelopment of a site into a commercial building	6	Demolition of unwanted existing concrete structures including internal walls, slabs, beams, and staircases	4,298	5.8
4	Main contractor of a public sector project involving road works and replacement of underground utilities	52	Removal of existing road surface by road sawing and carrying away the removed sections	3,058	4.1
5	Main contractor of a public sector project involving the re-construction and the widening of a flyover highway	16	Demolition of unwanted part of the existing bridge as well as the temporary bridge by cutting the bridges into manageable sections and removing them	2,724	3.7
6	Main contractor of a private sector project involving the construction of underground railways and railway stations	10	Removal of existing unwanted structures for tunnel lining	1,946	2.6

BUSINESS

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the year <i>HK\$'000</i>	% of total revenue of our Group for the year %
7	Main contractor of a private sector project involving the construction of a commercial building	3	Removal of unwanted concrete in the foundation for the creation of openings for the installation of grout pipes for purpose of site formation	1,873	2.5
8	Main contractor of a public sector project involving the improvement of a sewage treatment plant	80	Demolition of unwanted existing pipes by cutting the pipes into manageable sections and removing them	1,706	2.3
9	Main contractor of a public sector project involving the construction of a new flyover highway that connects to an existing flyover highway	25	Demolition of unwanted existing parapet on the existing flyover highway	1,699	2.3
10	Main contractor of a public sector project involving the construction of a sludge treatment facility	12	Removal of unwanted concrete for the creation of openings for electrical and mechanical services	1,489	2.0

For the three months ended 31 March 2014

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the period <i>HK\$'000</i>	% of total revenue of our Group for the period %
1	Main contractor of a private sector project involving the redevelopment of a site into a commercial building	2	Demolition of unwanted existing concrete structures including internal walls, slabs, beams, and staircases	2,948	14.2
2	Main contractor of a private sector project involving the redevelopment of a commercial building	1	Demolition of unwanted existing structure inside the pile cap	1,530	7.4
3	Main contractor of a public sector project involving the redevelopment of a bypass tunnel	4	Removal of unwanted existing fittings and cleaning inside pump house	964	4.6
4	Main contractor of a public sector project involving the construction of a sewage treatment facility	4	Removal of unwanted concrete for the creation of openings for the installation of pipe lines in relation to site formation	736	3.5

BUSINESS

Rank	Type of customer	Total number of jobs undertaken for the customer	Nature of principal jobs undertaken by us for the customer	Revenue contribution from the customer for the period <i>HK\$'000</i>	% of total revenue of our Group for the period %
5	Main contractor of a private sector project involving the redevelopment of a railway line extension	12	Removal of unwanted concrete structure of the existing underground utility such as manholes and cable trenches	583	2.8
6	Main contractor of a private sector project involving a residential development	9	Removal of unwanted concrete for the creation of openings for electrical and mechanical services	583	2.8
7	Main contractor of a public sector project for construction of a sludge treatment facility	2	Removal of unwanted concrete for the creation of openings for flow diversion	582	2.8
8	Main contractor of a private sector project involving the construction of a new railway station	7	Removal of unwanted concrete for the creation of openings for the installation of escalators	556	2.7
9	Main contractor of a private sector project involving the residential development	1	Removal of unwanted concrete of reinforced concrete wall structure	550	2.6
10	Main contractor of a private sector project involving the construction of a new cross-harbour railway and associated railway stations	14	Removal of unwanted concrete for the creation of openings for the installation of pipe piles in relation to site formation	542	2.6

Please also refer to the section “Business – Customers” in this prospectus for further information relating to our top customers.

BUSINESS

Backlog

As at 31 December 2012 and 2013 and 31 March 2014 and the Latest Practicable Date, we had a total of 31, 47, 42 and 151 jobs in our backlog (including jobs that have commenced but not completed as well as jobs that have been awarded to us but not yet commenced), with income derived or expected to be derived from such jobs as follows:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014	As at the Latest Practicable Date
Number of jobs in our backlog	31	47	42	151
Total revenue attributable to such jobs	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– recognised on or before the date indicated	964	6,218	5,415	19,879
– yet to be recognised as at the date indicated	<u>4,988</u>	<u>30,679</u>	<u>59,729</u>	<u>56,870</u>
	<u><u>5,952</u></u>	<u><u>36,897</u></u>	<u><u>65,144</u></u>	<u><u>76,749</u></u>

The expected completion dates of the jobs in our backlog are as follows:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014	As at the Latest Practicable Date
Number of jobs in our backlog which were completed or expected to be completed:				
– on or before 31 December 2013*	21	N/A	N/A	N/A
– 1 January 2014 to Latest Practicable Date*	1	20	4	N/A
– Latest Practicable Date to 30 September 2014^	5	20	29	140
– 1 October 2014 to 31 December 2014^	4	6	7	8
– 1 January 2015 to 31 December 2015^	0	1	1	2
– after 31 December 2015^	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
	<u><u>31</u></u>	<u><u>47</u></u>	<u><u>42</u></u>	<u><u>151</u></u>

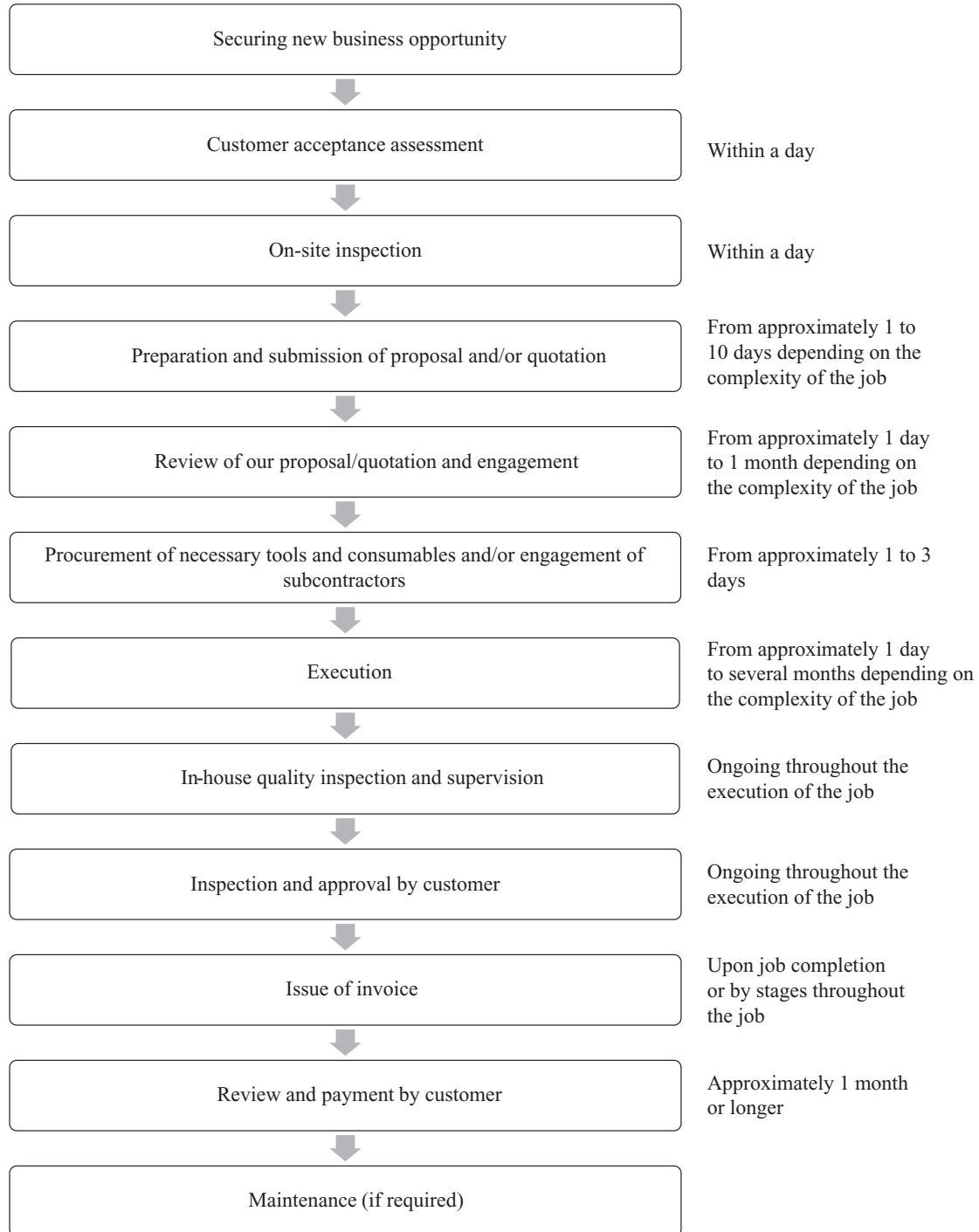
* denotes actual completion dates

^ denotes expected completion dates

BUSINESS

Operation flow

Set out below is a flowchart summarising the principal steps of our workflow of a typical job:



BUSINESS

Securing new business opportunity

During the Track Record Period, we secured new businesses mainly through direct invitation for quotation by customers. For further information, please refer to the section “Business – Sales and marketing” in this prospectus.

Customer acceptance assessment

Customer acceptance procedures are performed on potential customers, including but not limited to (i) checking our internal record regarding the payment history of the customer and any past litigation record with us; and (ii) for new customers and/or sizeable jobs, engaging independent consultant to perform company search, litigation search and credit search to ascertain the customer’s credibility.

On-site inspection

In general, we may require to conduct on-site inspection in order for us to prepare our demolition proposal and/or quotation.

Preparation and submission of proposal and/or quotation

We will provide a quotation to our customer based on our on-site inspection (if any) and/or information available to us. For our pricing strategy, please refer to the section “Business – Pricing strategy” in this prospectus. For jobs of a complicated nature, we may also prepare a proposal detailing our proposed demolition methods as well as the timeframe and the amount and types of machinery and labour resources needed in order to fulfill our customer’s requirements.

Review of our proposal/quotation and engagement

Before we are formally engaged by our customer, our customers may, depending on the complexity of the job, need to review our proposal and carry out face-to-face interviews with us in order to discuss the feasibility of our proposed demolition approach, solutions to possible site constraints as well as our terms of engagement.

Our engagement is typically confirmed by way of a job order placed by our customer. Customers of sizeable construction projects may also enter into an agreement with us governing the general terms of our engagement. Multiple job orders may then be placed to us under an agreement.

Procurement of necessary tools and consumables and/or engagement of subcontractors

If necessary, we may need to procure additional tools, materials and consumables in accordance with our proposal. Depending on the availability of our labour resources and the opportunity cost of performing the work with our own resources, we may engage further subcontractors.

BUSINESS

Execution

Our workers and our employees will execute the job in accordance with our proposal as well as our in-house rules in relation to work procedures and work safety. For details of our in-house rules, please refer to the sections “Business – Quality control”, “Business – Occupational health and work safety” and “Business – Environmental compliance” in this prospectus.

During execution, we may be required by our customer to perform additional works not included in the agreed scope of the job. In such event, we will discuss and agree with our customer a revised fee of the job.

In-house quality inspection and supervision

In-house quality inspection and supervision are carried out on an on-going basis throughout the execution of the job by our project manager and on-site staff to ensure compliance with our customers’ specifications and requirements.

Inspection and approval by customer and issue of invoice

Our customers’ representatives, who usually are the on-site engineers and/or quantity surveyors, will carry out inspection on an on-going basis and approve our work done upon completion of the job or by stages, after which the fees for such works are included in our invoice issued to our customers to request for payments.

Review and payment by customer

After issue of invoice, our customer will normally conduct review on the documents submitted by us before approving and executing payments to us. A portion of each payment, normally at 5%, may be withheld by our customers as retention money depending on the agreement with individual customers and is released to us normally one year after completion of our concrete demolition jobs or the entire construction project undertaken by our customer.

Maintenance

Maintenance is generally not required in respect of job orders that are not governed by an agreement with customer. In relation to job orders that are governed by an agreement, the agreement usually contain a clause pursuant to which we are required to maintain our work and make good any defect and imperfection for a period mirror to the period for which our customer is liable to its own customer.

Nevertheless, due to the nature of our work which is mainly concerned with demolition and removal of concrete, our Directors generally do not expect any follow-up maintenance necessary after approval by our customers upon completion of our works. Therefore, our Directors consider that the possibility of any request for maintenance or making good of

BUSINESS

defect or imperfection is low. During the Track Record Period, we did not experience any request from our customers for follow-up maintenance or making good of defect or imperfection in our works.

Pricing strategy

Our pricing is determined on a case-by-case basis. Factors that we take into account in determining our fees generally include (i) the estimated number and types of workers required; (ii) the difficulties of the job; (iii) the demolition methods and techniques expected to be applied; (iv) the estimated number and types of machines required; (v) the availability of our manpower and resources; (vi) the completion time requested by customers; (vii) any further subcontracting is expected to be necessary; (viii) the overall cost in undertaking the job; (ix) the past prices offered to the customer and (x) the prevailing market conditions.

As we undertake jobs of considerably different scales which may involve one or a combination of different demolition methods, our fees charged per job vary significantly from job to job. For details, please refer to the section “Business – Types of jobs undertaken” in this prospectus.

Seasonality

Our Directors believe that the concrete demolition industry in Hong Kong does not exhibit any significant seasonality.

LICENSES AND PERMITS

As advised by the Legal Counsel, for any works where Drillcut is involved as a subcontractor, if there is a registered general contractor and/or specialist contractor under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) to supervise the works and liaise with the Buildings Authority, Drillcut itself does not need to be such registered contractor or to obtain any requisite licenses, permits and approval for its operation and business except the business registration.

As confirmed by our Directors, for every work where our Group is involved as a subcontractor, there is such a registered contractor (usually the main contractor) to supervise the works and liaise with the Buildings Authority. As such, there are no licences, permits or approval necessary to be obtained for our Group to carry out our business in connection with concrete demolition services except the business registration.

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Some of our customers, in particular main contractors of major public sector projects, require their subcontractors to be registered in the Subcontractor Registration Scheme of the Construction Industry Council. In addition, we may also participate in works that are classified as minor works under the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) which was passed by the Legislative Council in May 2009, pursuant to which we are required to be registered as a minor works contractor in order to carry out such minor works. Drillcut, our principal operating subsidiary, has completed both of the aforementioned registrations, details of which are summarised in the following table:

Type of registration	Granted by	Registration since	Date of expiry or next renewal	Reason for the registration
Subcontractor Registration Scheme	Construction Industry Council	29 October 2006	28 October 2014	Some of our customers, in particular main contractors of major public sector projects, require their subcontractors to be so registered before they would consider engaging the subcontractors.
Registered Minor Works Contractor	Buildings Department of the Hong Kong Government	15 March 2011	11 February 2017	Pursuant to the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) passed by the Legislative Council in May 2009, a total of 126 items of building works have been included as minor works. Contractors are required to be registered as a minor work contractor under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) in order to carry out such minor works. For details, please refer to the section "Regulatory overview" in this prospectus.

The Legal Counsel advised that he does not foresee any material legal impediment in the renewal of the aforesaid registration by us.

BUSINESS

CUSTOMERS

Characteristics of our customers

Our customers primarily include main contractors and subcontractors of various types of construction or civil engineering projects in Hong Kong. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, there were 646, 603, 244 and 240 customers who contributed to our revenue, respectively. During the Track Record Period, all of our customers are located in Hong Kong and all of our service fees are denominated in Hong Kong dollars.

Our customers generally place orders with us for every job instead of entering into long-term agreements with us. Our Directors consider that such arrangement is in line with the industry practice. The principal terms contained in our orders from customers, which are legally-binding, include, among other things, scope of concrete demolition services, measurement unit and unit price. A credit period of 15 days is expressly stated on the invoices issued by us to our customers. Depending on the agreement with individual customers, our customers may hold up a certain percentage of each payment made to us, usually at the rate of 5%, as retention money. Retention money is usually required by customers who are main contractors of sizeable construction projects. In accordance with the respective agreements with customers, retention money is released to us normally one year after completion of our concrete demolition jobs or the entire construction project undertaken by our customer. As at 31 March 2014, retention receivables (net of impairment) held by our customers amounted to approximately HK\$2.9 million.

As we undertake jobs of considerably different scales, our customers' revenue contribution to us varies significantly from customer to customer. For details, please refer to the section "Business – Concrete demolition services – Types of jobs undertaken" in this prospectus.

Top customers

During the Track Record Period, we were not dependent on any single customer. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, the percentage of our Group's total revenue attributable to our Group's largest customer amounted to approximately 7.7%, 7.5% and 14.2% respectively, while the percentage of our Group's total turnover attributable to our Group's five largest customers combined amounted to approximately 26.6%, 26.9% and 32.5% respectively.

Please refer to the section "Business – Concrete demolition services – Types of jobs undertaken" in this prospectus for the nature of principal jobs undertaken for our 10 largest customers during the Track Record Period.

BUSINESS

Set out below is a breakdown of our revenue by major customers and their respective background information:

For the year ended 31 December 2012

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	HK\$'000	%
1	Customer A	Construction contractor	14	15 days/cheque	4,356	7.7
2	Customer B	Construction contractor	8	15 days/cheque	3,352	5.9
3	Customer C	Joint venture/ construction contractor	2	15 days/cheque	2,776	4.9
4	Customer D	Construction contractor	18	15 days/cheque	2,493	4.4
5	Customer E	Construction contractor	3	15 days/cheque	2,083	3.7
Five largest customers combined					15,060	26.6
All other customers					41,815	73.4
Total revenue					56,875	100.0

BUSINESS

For the year ended 31 December 2013

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	HK\$'000	%
1	Customer F	Joint venture/ construction contractor	1	15 days/cheque	5,548	7.5
2	Customer G	Construction contractor	18	15 days/cheque	4,334	5.8
3	Customer H	Construction contractor	19	15 days/cheque	4,298	5.8
4	Customer I	Construction contractor	13	15 days/cheque	3,058	4.1
5	Customer A	Construction contractor	14	15 days/cheque	2,724	3.7
Five largest customers combined					19,962	26.9
All other customers					54,432	73.1
Total revenue					74,394	100.0

For the three months ended 31 March 2014

Rank	Customer	Principal business activities	Year(s) of business relationship	Typical credit terms and payment method	HK\$'000	%
1	Customer H	Construction contractor	19	15 days/cheque	2,948	14.2
2	Customer J	Construction contractor	5	15 days/cheque	1,530	7.4
3	Customer K	Joint venture/ construction contractor	1	15 days/cheque	964	4.6
4	Customer L	Construction contractor	17	15 days/cheque	736	3.5
5	Customer M	Joint venture/ construction contractor	1	15 days/cheque	583	2.8
Five largest customers combined					6,761	32.5
All other customers					14,019	67.5
Total revenue					20,780	100.0

BUSINESS

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

Counterparty risk

We face risks in relation to the collectability of our trade receivables. We issue invoice to our customer for works completed by us. As at 31 December 2012 and 2013 and 31 March 2014, we recorded trade receivables (excluding retention receivables and net of impairment) of approximately HK\$12.2 million, HK\$22.4 million and HK\$22.1 million respectively, of which approximately HK\$10.5 million, HK\$16.0 million and HK\$14.1 million respectively have been past due but not impaired as they were due from customers of whom there was no history of default during the Track Record Period. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our trade receivables turnover days (excluding retention receivables) were approximately 80.6 days, 85.0 days and 96.5 days respectively, which were significantly longer than the credit period of 15 days expressly stated on the invoices issued by us to our customers. During the Track Record Period, we generally did not have written agreements with customers on the credit period other than the invoices issued by us. For further details of our counterparty risk, please refer to the section “Risk factors – We face risks in relation to the collectability of our trade receivables and retention receivables” in this prospectus.

In order to mitigate such risk, customer acceptance procedures are performed on all potential customers, including but not limited to (i) checking our internal record regarding the payment history of the customer and any past litigation record with us; and (ii) for new customers and/or sizeable jobs, engaging independent consultant to perform company search, litigation search and credit search to ascertain the customer’s credibility.

Material overdue payments are monitored continuously and evaluated on a case-by-case basis as to the appropriate follow-up actions having regard to the customer’s normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. Follow-up actions to recover overdue trade receivables include but not limited to active communications with the customers’ appropriate personnel (such as the relevant department responsible for processing payments) as well as legal actions. In addition, we review the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts.

Please also refer to the section “Financial information – Net current assets – Trade and other receivables” in this prospectus for a further discussion and analysis on our trade receivables and our trade receivables turnover days during the Track Record Period.

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SUPPLIERS AND INVENTORY

Characteristics of our suppliers

Our suppliers primarily include suppliers of (i) materials and consumables such as saw blades, cutting wires, bolts and screws; and (ii) miscellaneous services such as the transportation of wastes to landfills and the rental of crane lorry for the lifting of cut-out sections of concrete.

As our demand for machinery, materials, consumables and miscellaneous services depends mainly on the types of work we undertake which may vary from period to period, we did not enter into any long-term agreement with, or commit to any minimum purchases from, our suppliers. During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required. Our Directors consider that the possibility of a material shortage or delay is low given the abundance of suppliers of the same kind.

During the Track Record Period, we did not experience any material fluctuation of prices of goods and services that we required. Our Directors consider that we are able to pass on any increase in purchase costs to our customers as we generally take into account our overall costs of undertaking a job when determining our fee quotation.

In general, our major suppliers grant us a credit term of 30 days and we settle our payment by cheque, bank transfer or telegraphic transfer.

Location of suppliers

Set out below is a breakdown of our purchases by suppliers' location during the Track Record Period:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Hong Kong	9,303	84.0	6,641	55.1	616	66.8	1,908	85.1
PRC	1,164	10.5	4,850	40.2	306	33.2	333	14.9
South Korea	99	0.9	128	1.0	–	–	–	–
Others (Note)	505	4.6	443	3.7	–	–	–	–
Total	<u>11,071</u>	<u>100.0</u>	<u>12,062</u>	<u>100.0</u>	<u>922</u>	<u>100.0</u>	<u>2,241</u>	<u>100.0</u>

Note: During the Track Record Period, other locations include Germany, Switzerland, New Zealand, Sweden, United States and United Kingdom.

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Denomination of purchases

Set out below is a breakdown of our purchases by currency denomination during the Track Record Period:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
					(unaudited)			
HK\$	9,121	82.4	8,604	71.3	873	94.7	1,805	80.5
RMB	39	0.4	1,530	12.7	–	–	–	–
EUR	1,012	9.1	1,245	10.3	–	–	430	19.2
Others (<i>Note</i>)	<u>899</u>	<u>8.1</u>	<u>683</u>	<u>5.7</u>	<u>49</u>	<u>5.3</u>	<u>6</u>	<u>0.3</u>
Total	<u><u>11,071</u></u>	<u><u>100.0</u></u>	<u><u>12,062</u></u>	<u><u>100.0</u></u>	<u><u>922</u></u>	<u><u>100.0</u></u>	<u><u>2,241</u></u>	<u><u>100.0</u></u>

Note: During the Track Record Period, other currencies include US dollar, Swiss Franc, New Zealand Dollar and Swedish Krona.

Top suppliers

During the Track Record Period, we are not dependent on any single supplier. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, the percentage of our Group's total purchases attributable to our Group's largest supplier amounted to approximately 18.5%, 17.7% and 28.7% respectively, while the percentage of our Group's total purchases attributable to our Group's five largest suppliers combined amounted to approximately 40.5%, 48.9% and 59.2% respectively.

Set out below is a breakdown of our Group's total purchases by top suppliers of our Group:

For the year ended 31 December 2012

Rank	Supplier	<i>HK\$'000</i>	%
1	Supplier A	2,050	18.5
2	Supplier B	778	7.0
3	Grandwin (<i>Note</i>)	600	5.4
4	Supplier C	550	5.0
5	Supplier D	<u>505</u>	<u>4.6</u>
	Five largest suppliers combined	4,483	40.5
	All other suppliers	<u>6,588</u>	<u>59.5</u>
	Total purchases	<u><u>11,071</u></u>	<u><u>100.0</u></u>

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Note:

Grandwin is a related party of our Company. For further information of the transactions with Grandwin, please refer to the section “Connected transactions” in this prospectus.

For the year ended 31 December 2013

Rank	Supplier	<i>HK\$'000</i>	<i>%</i>
1	Supplier E	2,136	17.7
2	Supplier A	1,547	12.8
3	Supplier F	1,009	8.4
4	Supplier B	729	6.0
5	Supplier C	<u>487</u>	<u>4.0</u>
	Five largest suppliers combined	5,908	48.9
	All other suppliers	<u>6,154</u>	<u>51.1</u>
	Total purchases	<u><u>12,062</u></u>	<u><u>100.0</u></u>

For the three months ended 31 March 2014

Rank	Supplier	<i>HK\$'000</i>	<i>%</i>
1	Supplier A	644	28.7
2	Supplier G	253	11.3
3	Supplier H	153	6.8
4	Supplier B	144	6.4
5	Supplier I	<u>136</u>	<u>6.0</u>
	Five largest suppliers combined	1,330	59.2
	All other suppliers	<u>911</u>	<u>40.8</u>
	Total purchases	<u><u>2,241</u></u>	<u><u>100.0</u></u>

None of our Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of our Group during the Track Record Period except for Grandwin, which was our third largest supplier in 2012 and a limited company incorporated in Hong Kong and owned as to 60% by Mr. Pei, 20% by Mrs. Pei, 10% by Ms. Pei and 10% by Ms. Pei Wing Ki, a daughter of Mr. Pei and Mrs. Pei and a sister of Ms. Pei.

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Set out below is the background information of the five largest suppliers of our Group during the Track Record Period:

Supplier	Principal business activities	Type of goods and services supplied	Location	Year(s) of business relationship	Typical credit terms and payment method
Supplier A	Supply of machinery, parts and other construction materials and consumables	Machinery parts as well as materials and consumables	Hong Kong	22	30 days/cheque
Supplier B	Transportation and supply of crane lorry	Transportation services and rental of crane lorry	Hong Kong	2	30 days/cheque
Grandwin	Property holding	Machinery rental services	Hong Kong	N/A	30 days/cheque
Supplier C	Supply of cutting tools	Materials and consumables such as saw blades and cutting wires	PRC	2	payment upon delivery/bank transfer
Supplier D	Supply and rental of machinery	Machinery rental services	Hong Kong	23	30 days/cheque
Supplier E	Supply of construction materials	Steel scaffolding components for building a temporary work platform for performing our concrete demolition job	PRC	1	30 days (<i>Note</i>)/cheque
Supplier F	Supply of drill bit	Drill bit for use in core drilling	PRC	3	30 days (<i>Note</i>)/telegraphic transfer
Supplier G	Supply of construction materials	Materials and consumables	PRC	2	Not expressly stated but usually settled upon receiving invoice/cheque
Supplier H	Supply of machinery and parts	Machinery parts	Hong Kong	2	7 days after delivery/cheque
Supplier I	Transportation	Transportation services	Hong Kong	1	30 days (<i>Note</i>)/cheque

Note: Not expressly stated but usually settled within 30 days.

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Inventories

Our inventories recorded on our books of accounts mainly include raw materials and consumables such as saw blades and cutting wires, which amounted to approximately HK\$1.4 million as at 31 December 2012, approximately HK\$1.6 million as at 31 December 2013, and approximately HK\$0.9 million as at 31 March 2014.

We intend to maintain a sufficient level of inventories in order to enable us to perform our works efficiently upon request by our customers. We keep track of the level of our inventories on an on-going basis and perform stock take on an annual basis. Procurements are made when our inventories become insufficient.

SUBCONTRACTING

Nature of and reasons for subcontracting

Depending on the availability of our labour resources and the opportunity cost of performing the work with our own resources, we may subcontract our works to other subcontractors. Subcontractors include individuals as well as companies which generally have available skilled workers but lack the necessary machinery to perform concrete demolition works.

In a typical subcontracting arrangement, we generally provide machinery to our subcontractors while our subcontractors would provide labours. In general, we determine the amount of subcontracting charges based on (i) a certain percentage of the amount of fees received by us from our customers in respect of the portion of works being subcontracted; (ii) the amount of labour resources required from our subcontractors; (iii) the nature of works to be performed; and (iv) the prevailing market conditions.

The following table sets out the relevant amount of subcontracting charges incurred by our Group during the Track Record Period:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Subcontracting charges	15,392	19,356	2,874	4,058

The amount of subcontracting charges incurred by our Group increased from approximately HK\$15.4 million in 2012 to approximately HK\$19.4 million in 2013 and from approximately HK\$2.9 million for the three months ended 31 March 2013 to approximately HK\$4.1 million for the three months ended 31 March 2014, representing an increase of approximately 25.8% and 41.2% respectively. Such increases were mainly due to the increase in amount of works outsourced to subcontractors as a result of the increase in the value of jobs undertaken by us as illustrated by the increase in our revenue of approximately

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30.8% from approximately HK\$56.9 million in 2012 to approximately HK\$74.4 million in 2013 and of approximately 40.9% from approximately HK\$14.8 million for the three months ended 31 March 2013 to approximately HK\$20.8 million for the three months ended 31 March 2014.

Top subcontractors

For each of the two years ended 31 December 2013 and the three months ended 31 March 2014, the percentage of our Group's total payment to our Group's largest subcontractor amounted to approximately 28.8%, 33.8% and 32.6% of our Group's total subcontracting charges respectively, while the percentage of our Group's total payment to our Group's five largest subcontractors combined amounted to approximately 69.3%, 75.7% and 84.7% of our Group's total subcontracting fees respectively.

Set out below is a breakdown of our Group's total subcontracting fee charges to top subcontractors of our Group:

For the year ended 31 December 2012

Rank	Subcontractor	HK\$'000	%
1	Subcontractor A	4,439	28.8
2	Subcontractor B	2,495	16.2
3	Subcontractor C	1,786	11.6
4	Subcontractor D	988	6.4
5	Subcontractor E	967	6.3
	Five largest subcontractors combined	10,675	69.3
	All other subcontractors	4,717	30.7
	Total subcontracting charges	<u>15,392</u>	<u>100.0</u>

For the year ended 31 December 2013

Rank	Subcontractor	HK\$'000	%
1	Subcontractor A	6,536	33.8
2	Subcontractor F	4,160	21.5
3	Subcontractor C	1,791	9.3
4	Subcontractor G	1,294	6.7
5	Subcontractor E	849	4.4
	Five largest subcontractors combined	14,630	75.7
	All other subcontractors	4,726	24.3
	Total subcontracting fees	<u>19,356</u>	<u>100.0</u>

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For the three months ended 31 March 2014

Rank	Subcontractor	HK\$'000	%
1	Subcontractor F	1,322	32.6
2	Subcontractor A	1,226	30.2
3	Subcontractor C	377	9.3
4	Subcontractor G	306	7.5
5	Subcontractor H	<u>205</u>	<u>5.1</u>
Five largest subcontractors combined		3,436	84.7
All other subcontractors		<u>622</u>	<u>15.3</u>
Total subcontracting charges		<u><u>4,058</u></u>	<u><u>100.0</u></u>

None of our Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of the five largest subcontractors of our Group during the Track Record Period.

Set out below is the background information of the five largest subcontractors of our Group during the Track Record Period:

Subcontractor	Principal business activities	Location	Year(s) of business relationship	Typical credit terms and payment method
Subcontractor A	Concrete demolition works	Hong Kong	3	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor B	Concrete demolition works	Hong Kong	2	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor C	Concrete demolition works	Hong Kong	3	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor D	Concrete demolition works	Hong Kong	3	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor E	Concrete demolition works	Hong Kong	4	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque

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Subcontractor	Principal business activities	Location	Year(s) of business relationship	Typical credit terms and payment method
Subcontractor F	Concrete demolition works	Hong Kong	1	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor G	Concrete demolition works	Hong Kong	4	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque
Subcontractor H	Concrete demolition works	Hong Kong	1	Not expressly stated but usually settled within 30-60 days after receipt of invoice by cheque

Basis of selection of subcontractors

We carefully evaluate subcontractors taking into account their technical capability, track records, labour resources, and pricing. Based on these factors, we select and maintain a list of approved subcontractors and such list is updated on a continuous basis. When engaging subcontractors, we generally select the most suitable one from our approved list of subcontractors with regard to their availability of labour resources with suitable skillsets.

Relationship with subcontractors

Our Directors consider that we have established stable working relationship with our subcontractors. In addition, our Directors consider that we do not place any significant reliance on any single subcontractors as we engaged 32, 38, 19 and 16 subcontractors respectively for each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014.

We do not commit to any minimum amount of works or subcontracting charges with our subcontractors as we only place order with our subcontractors for each single job.

Our subcontractors are not our employees and we are not a party to the employment arrangement between our subcontractors and their employees.

Control on subcontractors

We normally enter into a master agreement (without a fixed term of engagement) with our subcontractors governing the general terms of subcontracting arrangement. The key terms of such master agreements include, among others, (i) the requirement for subcontractors to secure their own insurance cover for their employees; (ii) the method of payment by cheque based on invoices submitted by subcontractors to us; (iii) the prohibition of hiring illegal workers by subcontractors; (iv) the requirement for subcontractors to follow

BUSINESS

safety rules and compensate us for any penalty or damage arising from subcontractors' non-compliance; and (v) the requirement for subcontractors to compensate us for any loss of machinery provided by us.

In addition, we require our subcontractors to follow our in-house rules in relation to work quality, occupational safety and environmental protection. In general, we carry out inspection and monitoring on our subcontractors with regard to their work done and quality. For further information on our in-house rules in relation to work quality, occupational safety and environmental protection, please refer to the sections "Business – Quality control", "Business – Occupational health and work safety", and "Business – Environmental compliance" in this prospectus.

MACHINERY

Types of machinery owned

We possess our own machinery and equipment for performing different types of concrete demolition work and therefore are not materially dependent on third party for machinery rental. Our owned machinery and equipment include:

Major types of machines owned by our Group



Functions

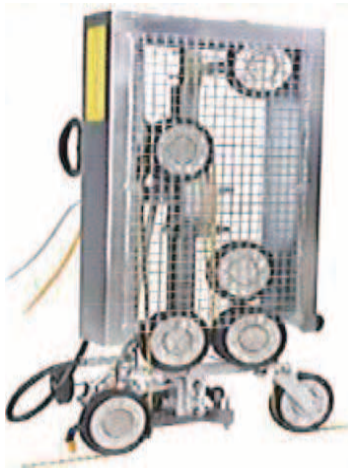
Remote controlled demolition robots, which are usually equipped with hydraulic breakers or hydraulic crushers for performing concrete demolition works by different methods such as crushing or bursting



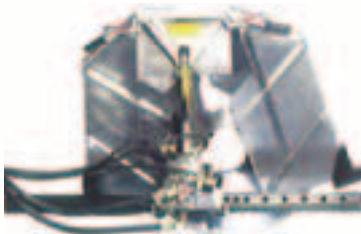
Coring machines, which are used in concrete demolition works that are performed by core drilling

**Major types of machines
owned by our Group**

Functions



Wire saw machines, which are used in concrete demolition works that are performed by wire sawing



Wall saw machines, which are typically applied for performing wall sawing



Road saw machines, which are applied for performing sawing of roads or pavements

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Major types of machines owned by our Group

Functions



Concrete crushers, which are used in concrete demolition works that are performed by crushing



Portable splitting and bursting machines, which are used in concrete demolition works that are performed bursting



Excavators, which are used in removing soils from ground and demolishing concrete

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During the Track Record Period, we mainly used machinery and equipment that were manufactured in Europe and the United States. We purchase our machinery and equipment from official dealers and do not purchase any parallel-imported machinery and equipment.

In late 2011, we purchased 4 sets of remote controlled demolition robots for use in the performance of concrete demolition works. As at the beginning of the Track Record Period, we had 4 sets of remote controlled demolition robots, being those purchased in late 2011 as aforementioned. We purchased an additional 4 sets of remote controlled demolition robots in 2012 and a further 3 sets in May 2014, bringing our total number of such machines to 11 sets as at the Latest Practicable Date. Our Directors consider that the use of remote controlled demolition robots is consistent with the latest developments in the concrete demolition industry as evidenced by the IPSOS Report. In addition, our Directors consider that the use of remote controlled demolition robots can effectively minimise risks associated with work safety because it allows workers to keep at a safe distance when performing concrete demolition works.

Occasionally, we may rent machinery and equipment from third parties when we do not have sufficient machinery or equipment for a particular job or when our owned machinery is occupied in another job. Such rented machinery and equipment primarily included heavy-duty metal stands and electricity generators during the Track Record Period. In 2012, we rented certain machinery and equipment from Grandwin, a related party, and the total machinery rental costs paid to Grandwin amounted to approximately HK\$0.6 million in 2012. We purchased such machinery from Grandwin in January 2013. Details of the transactions with Grandwin are disclosed in the section “Connected transactions” in this prospectus. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our total machinery rental cost amounted to approximately HK\$1.4 million, HK\$0.3 million and HK\$35,000 respectively (including the HK\$0.6 million paid to Grandwin in 2012).

Our Directors consider that being in possession of our own machinery and equipment at our disposal allows us to devise suitable demolition plans and apply suitable demolition methods specifically tailored to different needs and requirements of different customers, as well as enables us to efficiently and effectively schedule our job orders and deploy our manpower.

We believe that our investment in machinery and equipment has placed us in a position to cater for concrete demolition jobs of different scales and complexity and to meet the expected growing demand in major infrastructure and building developments in Hong Kong in the foreseeable future. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, we acquired new machinery in the amount of approximately HK\$7.0 million, HK\$4.9 million and HK\$0.8 million at cost respectively. As at 31 March 2014, our machinery had a total net book value of approximately HK\$8.4 million.

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Repair and maintenance

We perform routine checks on our machines prior to commencement of work and after completion of work. In addition, routine maintenance procedures, such as injecting lubricants when they ran out and cleaning the dust that pile up in the key components of the machinery to ensure smooth operation, are performed on an on-going basis by our workers and in-house mechanics. Machines that are found to be malfunctioning or out of order are sent to our in-house mechanics for examination and repair.

We have a team of in-house mechanics who are capable of repairing and maintaining our machinery. As at the Latest Practicable Date, our team of in-house mechanics consisted of 9 employees, who possessed up to approximately 30 years of experience in repairing and maintaining machinery. Our team of in-house mechanics also include 2 licensed electricians who are permitted to perform installation, maintenance and certification of design for certain electrical work.

Our in-house mechanics are capable of replacing the worn-out or malfunctioning parts and components of a machine when it becomes out of order instead of replacing the entire machine with a new one. Having the capability of doing so allows us to extend the usable life of our machinery and is more cost-effective than replacing the entire machine.

In addition, our Directors consider that sending malfunctioning or out-of-order machinery to suppliers for examination and repairing can be time-consuming as it is inevitably subject to suppliers' service availability and capacity and may incur additional time waiting for suppliers' responses. On the contrary, our Directors consider that examination and repairing by our in-house mechanics is less time-consuming in view of the aforesaid reasons and therefore can shorten the period of time during which a malfunctioning or out-of-order machine remains unusable.

Age and replacement cycle of machinery

The following table sets out the age of our machinery as at the Latest Practicable Date:

	Number of units of machinery	%	Book value of machinery HK\$'000	%
Within 2 years	85	21.8%	9,653	75.8%
2 to 4 years	30	7.7%	3,085	24.2%
More than 4 years	<u>275</u>	<u>70.5%</u>	<u>–</u>	<u>0.0%</u>
	<u>390</u>	<u>100.0%</u>	<u>12,738</u>	<u>100.0%</u>

As at the Latest Practicable Date, our Directors consider that our existing machinery and equipment, including those that were aged more than 4 years, were in good operating conditions in general. As mentioned above, our in-house mechanics are capable of replacing the worn-out or malfunctioning parts and components of a machine when it becomes out of order instead of replacing the entire machine with a new one, thereby allowing us to extend

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the usable life of our machinery. As such, we do not have a pre-determined or regular replacement cycle for our machinery and equipment and replacement decisions are made on a case-by-case basis having regard to the operating condition of individual unit of machinery and equipment and the difference between the cost of replacing only the worn-out or malfunctioning parts and the cost of replacing the entire machine with a new one.

Safekeeping of machinery

Machines that are in use at work sites are kept and secured by the general management of the respective work sites. We also have a warehouse and storage located at 11th Floor, Tack Lee Building, 107-111 Tung Chau Street, Kowloon, Hong Kong where machines are stored are equipped with locked gates and closed-circuit television security cameras.

When transporting machinery, we require our workers to properly secure the machinery to avoid machinery from falling off, which may cause damage to our machinery as well as potential injury or fatal accident.

Financing arrangements for the purchase of machinery

Taking into account our liquidity position and capital need, during the Track Record Period, our Group raised external financing for the purchase of machinery through finance leases and bank borrowings, part of which is non-current in nature. In choosing between finance lease arrangements and other financing sources such as bank borrowings, our Group takes into account several factors including interest cost, availability of funds, repayment schedule and security requirements, among which interest cost is an important factor. As at 31 December 2012 and 2013 and 31 March 2014, the interest rates ranged from 2.25% to 6.75%, from 2.25% to 6.25% and from 3.25% to 6.25% per annum for our banking facilities (including finance leases).

During the Track Record Period, our Group acquired certain machines by way of finance leases, under which our banks purchased certain machines from machinery providers and leased back those machines to our Group at stipulated monthly rents in a fixed term. Under these finance leases, we were given options to purchase these machines at a nominal amount at the end of the lease term. Since the terms of these finance leases transfer substantially all the risks and rewards of ownership of the machines to our Group as the lessee, the relevant machines were accounted for as our Group's assets under the category of property, plant and equipment. Our Group had machinery under finance leases with net book value amounting to approximately HK\$6.0 million, HK\$3.7 million and HK\$3.2 million as at 31 December 2012 and 2013 and 31 March 2014 respectively, representing approximately 70.5%, 42.7% and 37.8% of the net book value of machinery as at 31 December 2012 and 2013 and 31 March 2014 respectively.

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Service capacity and utilisation rate

Our Directors consider that due to the nature of our business and operations, it is not feasible and not practicable to quantify and disclose detailed service capacity and utilisation rate for the following reasons:

- (i) different types of machines and equipment have different functions and it is therefore not entirely feasible to quantify the capacity of each piece of machinery and equipment by making reference to an objective and comparable scale or standard of measurement; and
- (ii) the utilisation rate of individual machines cannot be clearly defined. A typical concrete demolition job requires the use of different machines at different stages, and machines from time to time are left unused in active construction sites pending for completion of other stages. Machines are also sometimes left unused for repairing or maintenance at work sites or at our warehouse. For these reasons, it is our Directors' view that it would be difficult and even infeasible to define accurate utilisation rate of machines in general. Besides, it is not practicable for us to make a full account of the daily/hourly usage of each individual machine.

Due to the above reasons, it is not practicable and not feasible for us to quantify or provide an estimate of our overall service capacity and the level of the utilisation of our capacity. Nevertheless, as mentioned above, machines may from time to time be left unused at work sites or at our warehouse due to various reasons and may be transferred and made available for use in other jobs if necessary. In addition, as a typical job may involve different types of concrete demolition methods and thus different types of machinery, we may optimise our operational efficiency and capacity by choosing suitable demolition methods and scheduling the use of suitable machinery at suitable time throughout the execution process of a job.

SALES AND MARKETING

During the Track Record Period, we secured new businesses mainly through direct invitation for quotation by customers, which is considered by our Directors to be attributable to our well-established presence in the concrete demolition industry in Hong Kong.

Apart from direct invitations by customers, we also actively explore new business opportunities by checking for any new construction or engineering projects in Hong Kong through subscription of relevant industry database and sending our marketing materials to potential customers when opportunity arises. We have also placed advertisements and sponsored certain events in the engineering and construction industry in Hong Kong to promote awareness of our Group. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, our total marketing expenses (including entertainment expenses which mainly represent costs in relation to the relationship building with existing and potential customers) amounted to approximately HK\$1.8 million, HK\$2.0 million, HK\$0.7 million and HK\$0.7 million respectively.

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Each of our executive Directors and our senior management members, namely, Mr. Pei, Ms. Pei, Mr. Chow Kwok Fai and Mr. Wan Chi Cheong, is actively involved in our sales and marketing activities, including the active liaison with existing and potential customers for securing new businesses, discussing the engagement terms and demolition approach, and during the execution process of concrete demolition jobs. Direct invitations from customers for quotations may be addressed to Mr. Chow Kwok Fai or Mr. Wan Chi Cheong directly, in which case the invitations will be handled by them where Mr. Pei and Ms. Pei may be involved, or addressed to Drillcut, our principal operating subsidiary, in which case Ms. Pei will be principally responsible for handling such invitations and assigning the appropriate personnel involved. Ms. Pei is also in charge of our various sales and marketing activities mentioned in the preceding paragraph, including exploring new business opportunities from our subscription of relevant industry database, sending marketing materials to potential customers, placing advertisements, and sponsoring events in the engineering and construction industry in Hong Kong to promote awareness of our Group.

QUALITY CONTROL

Quality control measures

We have in-house rules specifying, among other things, specific work procedures for performing different types of works and for operating different types of machinery in order to ensure our work quality. Our workers as well as our subcontractors are required to follow such in-house rules.

Our project manager, Mr. Wan Chi Cheong, and our quantity surveyor manager, Mr. Chow Kwok Fai, are responsible for the general monitoring our workers' compliance with our in-house rules as well as our overall work quality. For the profiles of Mr. Wan Chi Cheong and Mr. Chow Kwok Fai, please refer to the section "Directors and senior management" in this prospectus.

Quality control on our machinery and supplies

When machinery, tools, parts, consumables or other materials purchased by us are delivered to our Group, we will first check whether the quantity is correct and we will also perform an inspection on the quality of the goods. Quality inspection is mainly concerned with determining whether there are any observable defects and, for machinery, whether it functions normally.

Track record in relation to work quality

During the Track Record Period, we have not received any complaint or request for any kind of compensation from our customers due to quality issue in relation to works performed by us or by our subcontractors, which is considered by our Directors to be attributable to our effective quality control measures.

BUSINESS

OCCUPATIONAL HEALTH AND WORK SAFETY

Occupational health and work safety measures

We have established procedures to provide our workers with a safe and healthy working environment by specifying various safety measures in our in-house rules. In our in-house rules, we highlight potential dangers of different types of concrete demolition works and specify corresponding measures and requirements for our workers to follow, including, among others:

Potential dangers

Fire, injury and electric shock caused by improper use of machinery

Injury caused by falling objects, slippery floor, noise, inhalation of harmful dusts, and sparks resulting from drilling and cutting

Corresponding measures and requirements

Our workers are required to strictly follow our standard procedures of operating different types of machinery. In addition, our in-house rules also specify various safety measures which are required to be followed by our workers, including, among other things, ensuring that power has been cut off before replacing saw blades, never leaving an operating machine unattended, wearing safety gloves when handling machines or objects with sharp edges, allowing sufficient time for machines to cool down after operating, and ensuring that the lightings at work sites are sufficient.

Our workers are required to wear safety helmets when entering work sites. In addition, depending on the type of work to be performed, our workers are required to also wear safety gloves, safety goggles, safety footwear, earmuffs and breathing masks.

In addition, we provide our employees with, and sponsor our employees to attend, occupational safety education and training organised by ourselves and by external parties to enhance their awareness of work safety. Some of the courses attended by our employees include:

Course

Details

Construction safety officer course

A one-year course organised by the Construction Industry Council Training Academy

Construction safety supervisor course

A 42-hour course organised by the Construction Industry Training Authority

Metal scaffold erecting and dismantling supervision training course

A 3-day course organised by the Construction Industry Council Training Academy

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Course	Details
Rigging safety operation course	A 7-hour course organised by the Construction Industry Training Authority

System of recording and handling accidents and our track record

Pursuant to our typical agreement with our customer, accidents that take place at work sites must be reported to our customer and/or our customer's insurance company and/or the Department of Labour in accordance with procedures that mirror those specified in the main contract between our customer and its own customer.

We also maintain an internal record of all accidents. During the Track Record Period and up to the Latest Practicable Date, we recorded the following accidents:

Date of the accident	Details of the accident and nature of injuries	Consequences
26 April 2012	A piece of concrete fell from above and hit the right thumb of an employee of our subcontractor, causing injuries to his right thumb.	The injured employee of our subcontractor filed a claim against, among other parties, Drillcut, with the District Court of Hong Kong. For details, please refer to the section "Business – Litigation and claims".
13 October 2012	An employee of us suffered eye injury due to a splash of dirty water during the course of concrete demolition work.	The incident has been fully resolved and settled after compensation was paid by insurance company to the injured employee.
5 February 2013	An employee of us tripped when taking the stairs at a training seminar, causing lip injury.	We granted a 4-day leave to the employee and reimbursed the relevant medical expenses to the employee. The accident was not reported to the insurers and the Commission of Labour. For details, please refer to the section "Business – Non-compliance – Non-compliance with Employees' Compensation Ordinance".

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Date of the accident	Details of the accident and nature of injuries	Consequences
12 August 2013	An employee of us hurt his right hand when carrying tools at work site, causing injury to his right hand.	We granted a 5-day leave to the employee and reimbursed the relevant medical expenses to the employee. The accident was not reported to the insurers and the Commission of Labour. For details, please refer to the section “Business – Non-compliance – Non-compliance with Employees’ Compensation Ordinance”.

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 between our Group and the industry average during the Track Record Period. The industrial accident rates and fatality rates presented in the table below concern the construction industry in Hong Kong as a whole instead of only the concrete demolition industry as our Directors were not aware of any statistics in relation to the industrial accident rate and fatality rate concerning only the concrete demolition industry in Hong Kong:

	Industry average (note 1)	Our Group (note 2)
2012		
Industrial accident rate per 1,000 workers in construction industry	44.8	15.0
Industrial fatality rate per 1,000 workers in construction industry	0.340	Nil
2013		
Industrial accident rate per 1,000 workers in construction industry	40.4	14.9
Industrial fatality rate per 1,000 workers in construction industry	0.275	Nil

Notes:

- According to the statistics of the number of industrial accidents stated in the “Summary of Occupational Safety and Health Statistics of 2013” published by the Labour Department of the Government and the number of manual workers stated in the “Quarterly Report of Employment and Vacancies Statistics (Fourth Quarter 2013)” published by the Census and Statistics Department of the Government.
- Our Group’s accident rate is calculated as the number of accidents during the calendar year (i.e., 2 in 2012 and 2 in 2013) divided by the number of site workers as at the end of the calendar year. The number of site workers includes employees of our Group and our subcontractors.

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Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any significant incidents or accidents in relation to workers' safety.

External safety consultant

To further enhance our employees' awareness to work safety, on 8 March 2014, we engaged an external safety consultant to advise us on the general safety policy of our Group. The engagement team includes a chartered member of the Institution of Occupational Safety and Health of the United Kingdom. The external safety consultant reviewed our preceding safety policy adopted before the engagement of the consultant. The result of the review is that the policy should:

- clearly state that occupational safety and health requirements should be taken into proper consideration whenever decision is made by management;
- include the commitment to provide adequate and appropriate resources to implement the policy;
- place the management of occupational safety and health as one of the prime responsibilities of the management, from the most senior executive to the front-line supervisory level; and
- include the commitment to ensure the understanding, implementation and maintenance of the policy at all levels.

The external safety consultant has prepared a revised safety and health policy for our Group having taken into account the above and our Group has duly adopted such revised policy.

In addition, in May 2014, the external safety consultant provided a training for our employees on our safety policy and key safety measures.

ENVIRONMENTAL COMPLIANCE

Environmental compliance measures

Our Group's operation is subject to certain environmental requirements pursuant to laws in Hong Kong, including primarily those in relation to air pollution control, noise control and waste disposal. For details of the regulatory requirements, please refer to the section "Regulatory overview" in this prospectus.

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Our in-house rules contain measures and work procedures governing environmental protection compliance that are required to be followed by our workers. Such measures and procedures include, among others:

Area	Measures
Air pollution control	(i) Dust suppression by use of water (ii) Installation of dust screens as required (iii) Use of low-dust techniques and equipment as required
Noise control	(i) Installation of acoustic barriers as required (ii) Inspection and maintenance of all equipment before use for compliance of permitted noise level (iii) Works to be undertaken in accordance with the permitted work hours as specified by our customers
Waste disposal	(i) Waste to be segregated into general wastes and construction wastes before transporting to landfills

Track record in relation to environmental compliance

For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, we incurred approximately HK\$0.8 million, HK\$1.3 million and HK\$0.1 million respectively in relation to compliance with applicable environmental rules and regulations. We estimate that our annual cost of compliance going forward will be at a level similar to that during the Track Record Period and consistent with our business growth.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, there was no material breach of our in-house environmental protection rules by our Group's staff or non-compliance with the applicable laws and regulations relevant to environmental protection.

INSURANCE

Pursuant to section 40 of the Employees' Compensation Ordinance (Chapter 282, Law of Hong Kong), all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). We have secured insurance cover in accordance with such requirement.

Nevertheless, under section 40(1B) of the Employees' Compensation Ordinance, where a principal contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability

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and that of his subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a principal contractor has taken out a policy of insurance under section 40(1B) of the Employees' Compensation Ordinance, the principal contractor and a subcontractor insured under the policy shall be regarded as having complied with the relevant requirements of the Employees' Compensation Ordinance. As such, we are in practice covered by insurance policy taken out by our customers in this connection.

As advised by the Legal Counsel, under section 24(1) of the Employees' Compensation Ordinance, our Group will be liable for any accident of the workers of our subcontractors but not the main contractor on the work sites. In other words, our Group will be liable for any accident of workers of our subcontractors in addition to our own employees, but not those of our main contractors or our main contractors' other subcontractors working on the work sites. Accidents of the workers of our subcontractors are covered by the aforementioned insurance. In addition, under section 24(2) of the Employees' Compensation Ordinance, our Group is entitled to be indemnified by any person who would have been liable to pay compensation to the injured workers independently of section 24, such as our subcontractors being the actual employer of the injured workers.

Our Directors consider that there are no material risks in relation to employees' compensation that will not be covered by insurance taken out by our Group, our main contractors or subcontractors.

Besides, our Group maintains insurance coverage against, among other matters, (i) liability for third party bodily injury and damages to third party property occurring on our office premises; (ii) loss or damage of our machinery; and (iii) third-party liability in relation to the use of our vehicles.

Certain types of risks, such as the risk in relation to the collectability of our trade and retention receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks.

Our Directors consider that our insurance coverage is adequate and consistent with industry norm.

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EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had 66 employees in addition to our 2 executive Directors and 3 independent non-executive Directors. All of our employees are stationed in Hong Kong. The following table sets forth a breakdown of the number of our employees by functions:

	As at 31 December 2012	As at 31 December 2013	As at the Latest Practicable Date
Administration, accounting and finance	11	12	15
Sales and marketing	2	2	2
Project management and execution	37	38	40
Repair and maintenance of machinery	<u>6</u>	<u>7</u>	<u>9</u>
Total	<u>56</u>	<u>59</u>	<u>66</u>

Relationship with staff

Our Directors consider that we have maintained good relationship with our employees in general. We had have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor had we experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period.

Training and recruitment policies

We generally recruit our employees from the open market. We place recruitment advertisements and participate in job fairs organised by industry organisation.

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 will determine whether additional personnel are required to cope with the business development of our Group.

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We provide various types of trainings to our employees and sponsor our employees to attend various training courses, including those on technical aspects such as different types of concrete demolition methods and the operation of different types of machinery, as well as those on occupational health and safety and environmental protection in relation to our work. Such training courses include our internal training as well as courses organised by external parties such as our machinery manufacturers and other training providers. During each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our expenses incurred in arranging our workers to attend external courses amounted to approximately HK\$0.1 million, HK\$0.1 million and HK\$8,000 respectively.

Remuneration policy

Our Group entered into separate labour contracts with each of our employees in accordance with the applicable labour laws in Hong Kong.

The remuneration package our Group offers to employees includes salary, bonuses and other cash subsidies. In general, our Group determines employee salaries based on each employee's qualifications, position and seniority. Our Group has designed an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

PROPERTIES

As at the Latest Practicable Date, we did not own any property and we leased the following properties for our operations:

Address	Landlord	Gross floor area	Use of the property	Key terms of the tenancy
Unit C, 6th Floor, Cheong Shing Industrial Building, 17 Walnut Street, Kowloon, Hong Kong	Grandwin (<i>Note</i>)	Approximately 2,010 sq.ft.	For operational use	Monthly rental of HK\$24,000 with tenancy period up to May 2016
11th Floor, Tack Lee Building, 107-111 Tung Chau Street, Kowloon	An independent third party	Approximately 3,019 sq.ft.	For storage as well as repair and maintenance of our machinery and tools	Monthly rental of HK\$27,000 with tenancy period up to 30 April 2015

Note:

Grandwin is a related party of our Company. Please refer to the section "Connected transactions" in this prospectus for further details of our transactions with Grandwin.


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As at 31 March 2014, no single property interest forming part of our Group's non property activities had a carrying amount of 15% or more of our total assets. Thus, this prospectus is exempted from compliance with the requirements of rules 8.01A and 8.01B of the GEM Listing Rules and the requirements of section 342(1) 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, with respect to the inclusion of a property valuation report in this prospectus. Our Directors confirm that none of our property interests is individually material to our Group in terms of rental expenses.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we were the registrant of one domain name, namely, www.drillcut.com.hk.

As at the Latest Practicable Date, we had applied for the registration of the following trade mark in Hong Kong, the registration of which is still in process:

Trade mark	Jurisdiction	Classes
	Hong Kong	37

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.

However, we remain attentive to any latest development in concrete demolition techniques, machinery and equipment by joining various industry organisations. We invest in new machinery and equipment from time to time in order to provide demolition services that could meet our existing and potential customers' requirements. Please refer the section "Business – Machinery" in this prospectus for further information.

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We have joined various industry organisations in order for us to receive latest industry news and developments in concrete demolition techniques, machinery and equipment. Such organisations include:

Member of	Background of the organisation	Membership
Concrete Sawing & Drilling Association of the United States	An international association of contractors, manufacturers, distributors and affiliated member companies from the concrete construction and renovation industry with its headquarters based in the United States and its mission to promote professional sawing and drilling contractors and their methods	Registered in 1996
Hong Kong General Building Contractors Association	A non-profit making organisation in Hong Kong founded by a group of building contractors with a view to enhancing the contribution of the construction industry in the society, improving the quality of the work and providing resources to improve the standard of the industry and welfare to the members	Since 2002
Green Cross Group	An organisation established by the Occupational Safety and Health Council in Hong Kong to promote and facilitate benchmarking among organisations that seek continuous improvement in occupational safety and health and to act as a centre for exchanging benchmarking information and experiences, and maintaining an active network for member organisations	Since 1999
Registered Minor Works Contractor Signatory Association Limited	An organisation established by a group of registered minor works contractors in Hong Kong to facilitate industry players to understand and comply with the requirements of the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) which was passed by the Legislative Council in May 2009	Since 2012

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AWARDS AND RECOGNITIONS

In recent years, Drillcut has also been given the following awards by some of our major customers:

Award	Date of award	Nature	Awarded by
Best performance of environmental award for the 1st quarter of 2011	20 June 2011	In recognition of our contributions to environmental protection at work and efforts in improving workplace environment	One of our major customers
Housekeeping award	18 February 2011	In recognition of Drillcut being elected as the best subcontractors in work site tidiness	One of our major customers

NON-COMPLIANCE

Our Directors confirm that save as disclosed below under this section “Business – Non-compliance”, we have complied with all applicable laws and regulations in all material respects in Hong Kong (being the principal jurisdiction in which we operate) during the Track Record Period and up to the Latest Practicable Date.

Drillcut had inadvertently breached certain Government leases and certain statutes, details of which are set out below:

Non-compliance with Government leases and occupation permit

Set out below are non-compliance of Drillcut with certain Government leases and occupation permit:

Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Drillcut, as sub-lessee, rented a parcel of land located in Mo Fan Heung (模範鄉), Yuen Long, the New Territories (the “ Subject Land 1 ”) for its use of storage and warehousing during the period from January 2010 to April 2014. Under the relevant block Government lease, the lessee shall not convert the Subject Land 1, which is expressed to be demised as agricultural or garden ground, into use for building purpose, other than for the proper occupation as agricultural or garden ground without previous licence of the Government. Further, the lessee shall not erect any building or structure on the Subject Land 1 without having obtained the approval by the Government. As there were building and structures erected on the Subject Land 1 for use as storage warehouse by Drillcut, and there was no relevant licence or approval by the Government permitting the same during the material time, there was a breach of the relevant block Government lease of the Subject Land 1.	The breach was not wilful and due to absence of timely and professional advice at the material time.	Immediately upon becoming aware of the breach, Drillcut had terminated the tenancy arrangement and had moved out of the Subject Land 1.	According to the relevant block Government lease, the Government is entitled to re-enter the Subject Land 1 and claim damages against the respective owners. If the occupier does not quit the Subject Land 1 upon receiving notice of re-entry from the Government, he may also be liable to civil claim by the Government. As at the Latest Practicable Date, Drillcut had not received any notice of re-entry from the Government in relation to Subject Land 1. As advised by the Legal Counsel, it is highly unlikely that the Government will take any action against Drillcut since the usages of warehousing in Subject Land 1 had already been ceased.

Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
<p>Drillcut, as lessee, rented a parcel of land located in Ha Tsuen (廈村), Tuen Mun, the New Territories (the “Subject Land 2”) for its use of storage and warehousing during the period from September 2011 to April 2014. Under the relevant block Government lease, the lessee shall not convert the Subject Land 2, which is expressed to be demised as garden ground, into use for building purpose, other than for the proper occupation as garden ground without previous licence of the Government. Further, the lessee shall not erect any building or structure on the Subject Land 2 without having obtained the approval by the Government. As there were building and structures erected on the Subject Land 2 for use as storage warehouse by Drillcut, and there were no relevant licence or approval by the Government permitting the same during the material time, there was a breach of the relevant block Government lease of the Subject Land 2.</p>	<p>The breach was not wilful and due to absence of timely and professional advice at the material time.</p>	<p>Immediately upon becoming aware of the breach, Drillcut had terminated the tenancy arrangement and had moved out of the Subject Land 2.</p>	<p>According to the relevant block Government lease, the Government is entitled to re-enter the Subject Land 2 and claim damages against the respective owners. If the occupier does not quit the Subject Land 2 upon receiving notice of re-entry from the Government, he may also be liable to civil claim by the Government.</p> <p>As at the Latest Practicable Date, Drillcut had not received any notice of re-entry from the Government in relation to Subject Land 2.</p> <p>As advised by the Legal Counsel, it is highly unlikely that the Government will take any action against Drillcut since the usages of warehousing in Subject Land 2 had already been ceased.</p>

Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
<p>Breach of the land use restrictions set out in the relevant Condition of Exchange of a premises located at Ground Floor, No. 2D Boundary Street (the “Premises”), the land use conditions set out in the relevant occupation permit and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for failure to notify the Buildings Authority regarding the change of land use. Drillcut rented the Premises for storage and repair and maintenance of machineries from 1 January 2012 to 30 April 2014 where the land use of the Premises is restricted to domestic use.</p>	<p>The breach was not wilful and due to absence of timely and professional advice at the material time.</p>	<p>Immediately upon becoming aware of the breach, Drillcut had terminated the tenancy arrangement and moved out of the Premises.</p>	<p>Under section 40(2) of the Buildings Ordinance, Drillcut is liable to a maximum fine of HK\$100,000 and its directors are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum.</p> <p>As advised by the Legal Counsel, the chance of prosecution against Drillcut is not high as Drillcut has already moved out of the Premises. Further, the Legal Counsel advised that even if there is a conviction, the Court will probably not impose maximum sentence since our Company had moved out and the chance of imprisonment for the directors will not be high since there is no evidence that the relevant offence endangered the public.</p>
			<p>According to the relevant Condition of Exchange, the Government is entitled to re-enter the Premises and claim damages against the respective owners. If the occupier does not quit the Premises upon receiving notice of re-entry from the Government, he may also be liable to civil claim by the Government.</p>

Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
			<p>As at the Latest Practicable Date, Drillcut had not received any notice of re-entry from the Government in relation to Premises.</p> <p>As advised by the Legal Counsel, it is highly unlikely that the Government will take any action against Drillcut since the usage in the Premises had already been ceased and it is quite uncommon for the Government to re-enter the lease since other innocent co-owners under the same lease will be jeopardised.</p>

Non-compliance with the then Companies Ordinance (former Chapter 32 of the Laws of Hong Kong)

Set out below are non-compliance of Drillcut with the then Companies Ordinance in effect (former Chapter 32 of the Laws of Hong Kong) (the “**Old Companies Ordinance**”):

Relevant section of the ordinance	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Non-compliance with sections 111 and 122 of the Old Companies Ordinance	Drillcut had failed to convene its annual general meetings in 1994 and had failed to lay its profit and loss accounts and balance sheets at its respective annual general meetings in 1986, 1987, 1989 to 2013 within the prescribed time limit.	The omission was unintentional and due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters. During the material time, we had relied on the corporate secretarial services provided by an external service provider to handle such matters.	In compliance with section 111 of the Old Companies Ordinance, subsequent annual general meetings were duly held every year from 1995 onwards. There were audited accounts laid before the annual general meetings subsequently held notwithstanding that the audited accounts laid before the annual general meetings convened in 1986, 1987, 1989 to 2013 were beyond the respective prescribed time limit (save that no annual general meeting was convened in 1994). Our Group had also sought legal advice on whether relief can be obtained from the Court. As advised by the Legal Counsel, based on the recent judgements of the Companies Court, the Court will not grant relief under sections 111 and 122 of the Old Companies Ordinance because the Court is of the view that such relief has no practical purpose in the context of listing application.	Under the Twelfth Schedule of the Old Companies Ordinance, the maximum penalty for each offence is HK\$50,000 under section 111 and HK\$300,000 and imprisonment for 12 months under section 122. As advised by the Legal Counsel, the non-compliance in relation to (i) the said annual general meetings under section 111 and (ii) the audited accounts for the year ended 31 December 2010 and earlier audited accounts under section 122 can no longer be prosecuted as the time limit of 3 years to lay information or complaint relating to an offence under the Old Companies Ordinance pursuant to section 351A of the Old Companies Ordinance has already passed. As for those non-compliance in relation to the audited accounts for the years ended 31 December 2011 and 2012, the Legal Counsel advised that prosecutions under section 122 of the Old Companies Ordinance is rare.

Relevant section of the ordinance	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Non-compliance with section 109(1A) of the Old Companies Ordinance	Late filing of the annual return for the year 1994	The omission was unintentional and due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters. During the material time, we had relied on the corporate secretarial services provided by an external service provider to handle such matters.	The annual return for the year 1994 was subsequently filed on 24 April 2014.	As advised by the Legal Counsel, the non-compliance of section 122 of the Old Companies Ordinance is not of a particular serious nature and even if there is a conviction, the chance of the Court to impose maximum sentence is not wilful as confirmed by us, the Legal Counsel advised that the Court will not impose prison sentence.
Non-compliance with sections 92 and 158 of the Old Companies Ordinance	Late filing of forms in relation to change of situation of registered address and address of secretary with effect from 24 July 2006 and 15 August 2001 respectively	The omission was unintentional and due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters. During the material time, we had relied on the corporate secretarial services provided by an external service provider to handle such matters.	The relevant forms were subsequently filed on 25 September 2006 and 30 August 2001 respectively.	As advised by the Legal Counsel, the non-compliance in relation to the said late filing of forms can no longer be prosecuted as the time limit of 3 years to lay information or complaint relating to an offence under the Old Companies Ordinance pursuant to section 351A of the Old Companies Ordinance has already passed.

Non-compliance with Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

Set out below are non-compliance of Drillcut with the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**Inland Revenue Ordinance**”):

Relevant section of the ordinance	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Non-compliance with section 52(4) of the Inland Revenue Ordinance	Failure to submit the notice (Form 56E) regarding commencement of employment of certain employees which is required to be filed within 3 months after such commencement of employment until 31 December 2013.	The omission was not wilful and due to the inadvertent oversight of the administrative staff responsible for employee records.	The relevant notice for all employees which commenced employment after January 2014 were duly filed within the prescribed time limit.	Under the Inland Revenue Ordinance, the maximum penalty for each offence is HK\$10,000. As advised by the Legal Counsel, the chance of prosecution is not high as the Inland Revenue Department was aware of the employment affairs of Drillcut from the employer’s return of remuneration and pensions and the list of employee which had been duly filed by us.

Relevant section of the ordinance	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Non-compliance with section 52(5) of the Inland Revenue Ordinance	Failure to submit the notice (Form 56F) regarding cessation of employment of certain employees which is required to be filed within 1 month before the expected date of departure of such employee until 28 April 2014.	The omission was not wilful and due to the inadvertent oversight of the administrative staff responsible for employee records.	All prescribed forms were subsequently filed in April 2014.	Under the Inland Revenue Ordinance, the maximum penalty for each offence is HK\$10,000. As advised by the Legal Counsel, the chance of prosecution is not high as the Inland Revenue Department was aware of the employment affairs of Drillcut from the employer's return of remuneration and pensions and the list of employee which had been duly filed by us.

Non-compliance with Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

Set out below are non-compliance of Drillcut with the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "Employees' Compensation Ordinance"):

Relevant section of the ordinance	Particulars of the non-compliance	Brief explanation of non-compliance and the incident	Remedial action	Estimated/ actual fine/ penalty
Section 15(6) of the Employees' Compensation Ordinance	Failure of Drillcut to give notice to the Commissioner of Labour regarding the injuries of two of our employees which happened on 12 August 2013 and 4 February 2013 respectively during their course of employment who had injured his right hand and his lip and were given 5 days' sick leave and 4 days' sick leave respectively.	It was due to the inadvertent oversight by our management, who was unaware of the requirement given that the relevant injuries were of a minor nature and Drillcut had granted the sick leave to the injured employees as recommended by their respective medical practitioners and granted sickness allowance and reimbursed the medical expenses to the injured employees. The injured employees have also recovered and have been back to work.	N/A	Drillcut is liable to a maximum fine of HK\$50,000 for each offence

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As at the Latest Practicable Date, there had not been any prosecution initiated against our Group and our then and current Directors, nor had any of them been subject to any re-entry notice or fine relating the above non-compliances save as disclosed above. Our Directors consider that the above non-compliance matters shall not have any material impact on the operations or financial positions of our Group. Having considered that the estimated fines and penalty, if applicable, are immaterial, and our Controlling Shareholders shall indemnify our Group as mentioned below, no provision for the fines has been made by our Directors in our Group's financial statements.

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 any liabilities which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations on or before the date on which the Placing becomes unconditional. Further details of the deed of indemnity are set out in the paragraph headed "Tax and other indemnities" in Appendix IV to this prospectus.

Internal control measures to prevent the recurrence of non-compliance incidents

In order to continuously improve our Group's corporate governance and to prevent recurrence of the abovementioned non-compliances in the future, our Group has, pursuant to the recommendations made by CT Partners Consultants Limited ("CT Partners"), an independent internal control adviser engaged by us as disclosed in the paragraph headed "Review by CT Partners" below, adopted or will adopt the following measures:

1. With regards to the non-compliance in relation to the Government leases and occupation permit, starting from April 2014, all lease agreements will be reviewed by our accounting and administration department, and we will seek legal advice from external legal advisers before entering into or varying the terms of any lease agreement. Our compliance officer will be responsible for ensuring that all lease agreements entered into by us have complied with the relevant Hong Kong laws and regulations. The above procedures were performed on 25 April 2014 before we entered into a lease agreement in relation to the lease of the property located at 11th Floor, Tack Lee Building, 107-111 Tung Chau Street, Kowloon (see the section "Business – Properties" for further information regarding this leased property).
2. On 30 April 2014, our Directors attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
3. Our compliance officer, Ms. Pei, is responsible for the day-to-day compliance matters of our Group. Details of her qualifications and experience are set out in the section "Directors and senior management" in this prospectus.

BUSINESS

4. With regards to the non-compliance in relation to Companies Ordinance and Inland Revenue Ordinance, our company secretary, Ms. Au Shuk Man (歐淑敏), is responsible for keeping the filing register up to date on a monthly basis starting from May 2014 to ensure ongoing compliance. Our company secretary will report to the audit committee in the future in the event of any non-compliance with the Companies Ordinance and Inland Revenue Ordinance.
5. Prior to the Listing, we will establish a compliance manual which shall be observed by our Directors and employees. Each department shall be responsible for making all relevant staff aware of the compliance manual and for ensuring that they comply with its principles. Further, the compliance manual will lay down procedures that our staff have to follow in cases of employees' injuries to ensure compliance with the Employees' Compensation Ordinance.
6. We will engage CT Partners to have an annual review on the adequacy and effectiveness of our internal control system for the year ending 31 December 2014, including areas of financial, operational, compliance and risk management.
7. On 2 August 2014, we established an audit committee which comprises all independent non-executive Directors, namely, Prof. Lam Sing Kwong Simon, Mr. Law Yiu Sing and Ms. Wong Wai Ling. The audit committee has adopted its terms of reference which sets out clearly its duties and obligations to, among other things, overseeing the internal control procedures and accounting and financial reporting matter of our Group, and ensuring compliances with the relevant laws and regulations.

Our Board understands its responsibility towards the corporate governance of our Group, including but not limited to reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements. Our Company has designated Ms. Pei, an executive Director, as our compliance officer to supervise our compliance matters. In preparation for the Listing, Ms. Pei had attended training provided by our Company's legal advisers as to Hong Kong law in respect of, among other matters, the responsibilities of a director of a company listed in Hong Kong including the requirements of corporate governance. Ms. Pei had also been involved in the review process conducted by CT Partners regarding our internal control system and supervised our implementation of the recommendations made by CT Partners. Our company secretary, Ms. Au Shuk Man (歐淑敏), who is a member of the Hong Kong Institute of Certified Public Accountants, will report to and assist Ms. Pei to oversee our compliance matters. All our Directors (including Ms. Pei) and our company secretary will participate in continuous professional development to develop and refresh their knowledge and skills, including without limitation, seeking legal advice on change of or update on the legal and regulatory requirements as and when applicable and appropriate. Our Directors are of the view that the above arrangements will enable our Group to ensure its compliance with the legal and regulatory requirements in the future.

Review by CT Partners

On 24 February 2014, we engaged CT Partners, an independent internal control adviser, to perform a detailed evaluation under the Committee of Sponsoring Organisations of the Treadway Commission's framework of the adequacy and effectiveness of our Group's internal control system including the areas of financial, operation, compliance and risk management.

CT Partners is a company rendering internal control review services, which has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange. Besides, CT Partner's engagement team includes members of the Hong Kong Institute of Certified Public Accountants, a Certified Internal Auditor, a member of the Society of Chinese Accountants & Auditors, a fellow member of the Associations of Chartered Certified Accountants, a member of the Association of International Accountants, a member of Canadian Certified General Accountants Association, and a member of the Taxation Institute of Hong Kong and a Certified Tax Adviser (HK).

In relation to the non-compliance incidents mentioned above, CT Partners has reviewed and provided recommendations to our internal control designs for preventing the recurrence of the above-mentioned non-compliance incidents. Key measures adopted and to be adopted by our Group pursuant to the recommendations of CT Partners are disclosed in the section "Business – Internal control measures to prevent the recurrence of non-compliance incidents" in this prospectus.

CT Partners performed follow up review in this connection and the result of the follow up review was that our Group did not have significant deficiencies in our internal control design for preventing the recurrence of the abovementioned non-compliance incidents. According to the result of the follow up review by CT Partners, our Directors confirmed that our Group did not have significant deficiencies in our internal control design for preventing the recurrence of the abovementioned non-compliance incidents as at the Latest Practicable Date.

View of our Directors and the Sponsor

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rule 5.01 and 5.02 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by our Group are adequate and effective having taken into account that (i) our Group has fully rectified all of the non-compliance incidents, if applicable; (ii) our Group has implemented (or will implement where applicable) the abovementioned measures to avoid recurrence of the non-compliance incidents; (iii) there were no recurring of similar non-compliance incidents since the implementation of such measures; and (iv) the non-compliance incidents were unintentional, did not involve any dishonesty or fraudulent act on the part of our executive Directors, and did not raise any question as to the integrity of our executive Directors.

BUSINESS

The Sponsor, after considering the above and having reviewed the internal control measures and the findings of CT Partners, concurs with the view of our Directors that (a) the various internal control measures adopted by our Group are adequate and effective; and (b) the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rule 5.01 and 5.02 of the GEM Listing Rules and the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules.

LITIGATION AND CLAIMS

Save as disclosed below under this section “Business – Litigation and claims”, during the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

Set out below are the details of the outstanding litigation and claims involved by our Group as at the Latest Practicable Date, related to (i) employees’ compensation claims and personal injuries claims arising out of our Group’s ordinary and usual course of business and (ii) overdue payment by our customer and contractual sum disputes, which are considered by our Directors to have no material impact on our Group.

BUSINESS

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/ estimated quantum of damages claimed	Status
<p>Drillcut was engaged as a sub-subcontractor for certain demolition works carried out in Tuen Mun. One of the employees of our subcontractor (the “Injured Employee”), was assigned to chisel the wall of a building at the relevant construction site. A piece of concrete fell from above and hit his right thumb and he sustained injuries of fracture of right thumb distal phalanx. The Injured Employee (i) made application for employees’ compensation claim and personal injuries claim for the aforesaid injuries (the “First Claim”); and (ii) issued a pre-action letter for an intended claim for negligence (the “Intended Claim”).</p>	26 April 2012	The Injured Employee	<p>Drillcut (1st respondent); two independent third parties as 2nd and 3rd respondent. The 3rd respondent was the principal contractor. The 2nd respondent was a subcontractor of the 3rd respondent. The 1st respondent (Drillcut) was a subcontractor of the 2nd respondent.</p>	<p>The First Claim was settled between the insurer and the Injured Employee in the amount of HK\$91,000. Pursuant to a letter from the insurer’s solicitors dated 21 July 2014, the Intended Claim will be taken over by the insurer.</p>	<p>The First Claim was settled.</p> <p>Pursuant to a letter from the insurer’s solicitors dated 21 July 2014, the Intended Claim will be taken over by the insurer.</p>

BUSINESS

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/ estimated quantum of damages claimed	Status
<p>Drillcut was engaged by a subcontractor, which is an independent third party, for certain constructions works carried out in Shatin, to conduct certain demolition works at the relevant construction sites. As there were overdue payment from the independent third party, Drillcut filed a claim in the District Court claiming for such overdue payment. The independent third party filed a defence and counter-claimed on the contract sum and amount of work done by Drillcut because the parties failed to agree on the scope of work, measurement basis and unit price of work done upon issue of invoices by Drillcut.</p>	<p>The claim was filed by Drillcut on 6 October 2006.</p>	<p>Drillcut (Plaintiff); The independent third party (Plaintiff for Counter-claim)</p>	<p>The independent third party (Defendant); Drillcut (Defendant for Counter-claim)</p>	<p>HK\$850,724.92 plus interests and costs claimed by Drillcut against the independent third party; HK\$405,525.82 plus interests and costs claimed by the independent third party against Drillcut</p>	<p>The parties had attended a mediation held on 29 April 2014 to settle the dispute and entered into a consent order (the "Consent Order") on 27 June 2014 to, among others, stay all further proceedings in relation to the dispute. Pursuant to the Consent Order, the Defendant agreed to pay HK\$375,000 by 4 installments to Drillcut in full and final settlement of the claim. As at the Latest Practicable Date, the Dependent has made payment of 3 installments of the said sum.</p>

BUSINESS

Indemnity given by our Controlling Shareholders

In relation to the aforesaid, our Controlling Shareholders have undertaken to indemnify our Group against all losses and liabilities arising from the above legal proceedings. Please refer to the section “Other information – Tax and other indemnities” in Appendix IV to this prospectus for further details.

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into a tenancy agreement with a related party in relation to the lease of premises which will continue after the Listing and will therefore constitute continuing connected transaction for our Company under the GEM Listing Rules. Further information is set forth in the section “Connected transactions – Exempt continuing connected transaction” in this prospectus.

We entered into certain related party transactions during the Track Record Period which had been discontinued prior to the Latest Practicable Date. Such transactions related to the lease of properties and the lease and purchase of certain machinery and tools. Further information is set forth in the section “Connected transactions – Discontinued related party transactions” in this prospectus.

EXEMPT CONTINUING CONNECTED TRANSACTION

Tenancy agreement

On 9 May 2014, we (as tenant) entered into a tenancy agreement (the “**Tenancy Agreement**”) with Grandwin (as landlord) in relation to the lease of premises for our operation.

Grandwin is a limited company incorporated in Hong Kong on 17 January 2003 and owned as to 60% by Mr. Pei, 20% by Mrs. Pei, 10% by Ms. Pei and 10% by Ms. Pei Wing Ki, a daughter of Mr. Pei and Mrs. Pei and a sister of Ms. Pei. Mr. Pei is an executive Director and a Controlling Shareholder. As such, Grandwin is our connected person pursuant to the GEM Listing Rules. Accordingly, the Tenancy Agreement, which will continue after the Listing, will constitute a continuing connected transaction for our Company under the GEM Listing Rules. As at the Latest Practicable Date, Grandwin was principally engaged in property holding.

Pursuant to the Tenancy Agreement, Drillcut agreed to rent a property located at Unit C, 6th Floor, Cheong Shing Industrial Building, 17 Walnut Street, Tai Kwok Tsui, Kowloon, Hong Kong for a term of 2 years commencing on 9 May 2014 at a monthly rent of HK\$24,000 (exclusive of government rent, government rate, management fees and air-conditioning charges), which was agreed after arm’s length negotiations between the parties with regard to the then prevailing market rates for similar properties in the vicinity. The monthly rent is payable in advance on the 1st day of each and every successive calendar month. The total annual rent payable by us under the Tenancy Agreement shall be HK\$288,000.

CONNECTED TRANSACTIONS

Such property was also rented by Drillcut from Grandwin during the Track Record Period. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, the rent paid by Drillcut to Grandwin amounted to HK\$360,000, HK\$360,000 and HK\$90,000 respectively.

The Tenancy Agreement was entered into on normal commercial terms where each of the relevant percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 20 of the GEM Listing Rules is less than 5% while the total annual rent payable by us under the Tenancy Agreement is less than HK\$3,000,000. Pursuant to Rule 20.74(1)(c) of the GEM Listing Rules, the Tenancy Agreement is exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

DISCONTINUED RELATED PARTY TRANSACTIONS

Relevant parties

- (i) Drillcut;
- (ii) Grandwin; and
- (iii) Vincent Engineering Co ("**Vincent Engineering**"), a sole proprietorship registered in Hong Kong which commenced its business on 20 January 1976 and is owned by Mr. Pei. Mr. Pei is an executive Director and a Controlling Shareholder. As such, had our Company been listed on GEM during the Track Record Period, Vincent Engineering would have been a connected person of our Company pursuant to Chapter 20 of the GEM Listing Rules. As at the Latest Practicable Date, Vincent Engineering had no substantial operations.

As confirmed by Mr. Pei, as at the Latest Practicable Date, Grandwin and Vincent Engineering did not conduct any business activities which competed or was likely to compete, directly or indirectly, with the business of our Group.

Transactions with Grandwin

Lease of a property as Director's Quarter

During the Track Record Period, we rented a property from Grandwin in our ordinary course of business and on normal commercial terms for use as our director's quarter (the "**Director's Quarter**").

The total rental expenses paid to Grandwin for the property amounted to approximately HK\$600,000, HK\$600,000 and HK\$50,000 for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively.

Since 1 February 2014, the lease arrangement with Grandwin with respect to our Director's Quarter has been terminated.

CONNECTED TRANSACTIONS

Lease and purchase of machinery and equipment

During the Track Record Period, we rented certain machinery and equipment from Grandwin in our ordinary course of business and on normal commercial terms.

The machinery and tools involved in the transactions included core drilling machines, wall saws, drill rigs, electric control units, hydraulic power units and other machinery and tools for use in concrete demolition works. The total machinery rental cost paid to Grandwin amounted to approximately HK\$600,000, nil and nil for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively.

On 1 January 2013, Drillcut and Grandwin entered into a sale and purchase agreement pursuant to which Grandwin agreed to sell and Drillcut agreed to buy the machinery at a total consideration of HK\$404,000, which was based on the fair market value of the machinery as assessed by an independent valuer. Completion of such sale and purchase took place on 31 January 2013, following which the machinery rental arrangement between Drillcut and Grandwin ceased.

Transactions with Vincent Engineering

Lease of a property as our workshop and storage

During the Track Record Period, we rented a property located at Ground Floor, No. 2D Boundary Street, Kowloon, Hong Kong (the “**Boundary Street Property**”) from Mr. Pei and Mrs. Pei, where Vincent Engineering had been collecting the rental on their behalf, in our ordinary course of business and on normal commercial terms.

The Boundary Street Property was rented for our storage of machinery and equipment and for carrying out repair and maintenance works. The total rental expenses paid to Vincent Engineering for the Boundary Street Property amounted to approximately HK\$288,000, HK\$288,000 and HK\$72,000 for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively.

On 30 April 2014, we terminated the lease arrangement with Mr. Pei and Mrs. Pei with respect to the Boundary Street Property. The termination was due to the relocation of our workshop and storage to a property located at 11th Floor, Tack Lee Building, 107-111 Tung Chau Street, Kowloon, Hong Kong which was rented from an independent third party.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of 5 Directors comprising 2 executive Directors and 3 independent non-executive Directors. The following table sets out the information regarding the members of the Board:

Name	Age	Date of joining our Group	Date of appointment as Director	Present position	Principal responsibilities	Relationship with other Director(s) and/or senior management
Mr. PEI Wing Fu (費榮富)	61	1 July 1981	25 April 2014	Executive Director, Chairman and Chief Executive Officer	Overseeing our general operations and devising business strategies	Father of Ms. Pei
Ms. PEI Wing Sze, Clare (費詠詩)	35	8 November 2004	25 April 2014	Executive Director, Administration Manager and Compliance Officer	Overseeing our accounting, financial, administrative and marketing activities and devising business strategies	Daughter of Mr. Pei
Prof. LAM Sing Kwong Simon (林誠光)	55	2 August 2014	2 August 2014	Independent non-executive Director	Providing independent judgment on our strategy, performance, resources and standard of conduct	Nil
Mr. LAW Yiu Sing (羅耀昇)	46	2 August 2014	2 August 2014	Independent non-executive Director	Providing independent judgment on our strategy, performance, resources and standard of conduct	Nil
Ms. WONG Wai Ling (黃慧玲)	53	2 August 2014	2 August 2014	Independent non-executive Director	Providing independent judgment on our strategy, performance, resources and standard of conduct	Nil

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. PEI Wing Fu (費榮富), aged 61, is the chairman of the Board, an executive Director and the chief executive officer of our Group. Mr. Pei is responsible for overseeing the general operation and devising business strategies of our Group. Mr. Pei was appointed as an executive Director on 25 April 2014. He is also a director of Ultimate Expert and Drillcut.

Mr. Pei has joined Drillcut since July 1981 and has accumulated over 33 years of experience in the concrete demolition industry in Hong Kong since then. Mr. Pei was first employed by Drillcut as a supervisor in July 1981 and was subsequently promoted to the position of project manager in January 1982. He worked as a project manager for Drillcut until he acquired Drillcut in May 1991 and became Drillcut's director.

Prior to joining our Group, Mr. Pei had been employed by (i) Hop Kee Auto Service as a motor vehicle repair apprentice from September 1966 to September 1969; (ii) Turin Motors Limited from October 1969 to March 1972 with his last position as an electrician; (iii) Metro-Dodwell Motors Limited as an electrician from March 1972 to May 1972; and (iv) High Island Joint Venture (Tunnels) as an electrician from May 1972 to August 1974. In January 1976, Mr. Pei started a sole proprietorship business registered in the name of Vincent Auto Electric Spare Parts (also referred to as Vicent Auto Electric Spare Parts in certain business registration documents), which was principally engaged in the repair of auto electric spare parts. Mr. Pei carried out such business until he joined Drillcut in July 1981.

Mr. Pei obtained a diploma in business management jointly awarded by Hong Kong Polytechnic and Hong Kong Management Association in October 1985.

Mr. Pei has served in the following statutory bodies and industry organisations:

Statutory body or industry organisation	Capacity in which Mr. Pei has served	Duration
Minor Works Contractors Registration Committee Panel of the Buildings Department of the Government	Member	Since December 2009
Disciplinary Board Panel for the Factories and Industrial Undertakings (Safety Management) Regulation under the Labour Department of the Government	Member	From March 2009 to February 2012
Metal Works Course Advisory Panel of the Construction Industry Council	Member	Since October 2013
Construction Plant Maintenance Course Advisory Panel of the Construction Industry Council	Member	From 2006 to 2007 and 2009 to 2014

DIRECTORS AND SENIOR MANAGEMENT

Statutory body or industry organisation	Capacity in which Mr. Pei has served	Duration
Hong Kong General Building Contractors Association	Council member	From 2003 to 2007 and 2011 to 2014
	Vice President	From 2007 to 2011

Mr. Pei has been a safety officer registered under the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations (Chapter 59Z of the Laws of Hong Kong) since March 1988. He has also been an authorised signatory of Drillcut registered under the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) since March 2011.

Mr. Pei is the father of Ms. Pei and the spouse of Mrs. Pei.

Ms. PEI Wing Sze, Clare (費詠詩), aged 35, is an executive Director, administration manager and our compliance officer, who is mainly responsible for overseeing the accounting, financial, administrative and marketing activities and devising business strategies of our Group. Ms. Pei was appointed as an executive Director on 25 April 2014. She is also a director of Drillcut.

Ms. Pei first joined Drillcut as an administration manager in November 2004 and has accumulated over 9 years of experience working in our Group since then. Ms. Pei has been an authorised signatory of Drillcut registered under the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) since March 2011.

Prior to joining our Group, Ms. Pei had been employed by Excellent Margin Investment Limited as an assistant to director from September 2002 to August 2004.

Ms. Pei graduated from the University of British Columbia in Vancouver, Canada in May 2002 with a degree of Bachelor of Commerce in Finance.

Ms. Pei is the daughter of Mr. Pei and Mrs. Pei.

Independent non-executive Directors

Prof. LAM Sing Kwong Simon (林誠光), aged 55, was appointed as an independent non-executive Director on 2 August 2014. Prof. Lam is currently a Professor of Management at the Faculty of Business and Economics of the University of Hong Kong. Prof. Lam obtained a doctorate degree in commerce from the Faculty of Economics and Commerce at The Australian National University in April 1996. Prof. Lam is renowned for his research in corporate strategy, organisation development and operations management and has published a number of academic papers and case analysis on those topics. Before joining the University of Hong Kong, Prof. Lam served as a management consultant and regional manager of a bank. He has extensive experience in corporate management, strategic development of organisations and corporate finance.

DIRECTORS AND SENIOR MANAGEMENT

Prof. Lam is currently an independent non-executive director of Jin Cai Holdings Company Limited (stock code: 1250) since June 2013, Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366) since May 2009 and Sinomax Group Limited (stock code: 1418) since 10 July 2014, the issued shares of which are listed on the Main Board of the Stock Exchange.

Mr. LAW Yiu Sing (羅耀昇), aged 46, was appointed as an independent non-executive Director on 2 August 2014. Mr. Law has been a certified practising accountant of the CPA Australia since August 2005, a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2006, and a certified tax adviser of the Taxation Institute of Hong Kong since January 2013.

Mr. Law obtained a bachelor's degree of engineering from the Concordia University in Canada in October 1990. He later completed a master degree in business administration in the University of Hong Kong in December 1999 and completed a master degree of practicing accounting in the Monash University in Australia in November 2004. Mr. Law also obtained a graduate diploma in English and Hong Kong law (Common Professional Examination) from the Manchester Metropolitan University in July 2009. Mr. Law is also a founding member of the Institute of Accountants Exchange.

Mr. Law has over 20 years of experience in the field of financial and business management. From October 1995 to October 1997, Mr. Law was the general manager in the corporate development department of COSCO Pacific Limited (stock code: 1199), the issued shares of which are listed on the Main Board of the Stock Exchange. From August 2000 to May 2002, Mr. Law was the deputy general manager of business development of China Chengtong Development Group Limited (stock code: 217), the issued shares of which are listed on the Main Board of the Stock Exchange. From January 2003 to November 2004, Mr. Law served as the director of corporate finance and the assistant to the chief financial officer of Capisces International (H.K.) Limited. From January 2006 to January 2007, Mr. Law worked at the Official Receiver's Office as Insolvency Officer II. From February 2007 to March 2009, Mr. Law served as the vice president of Yangtze Capital Management Limited. From July 2009 to July 2010, Mr. Law served as the chief financial officer of Jimei Development Holdings Ltd.

Mr. Law has been the deputy general manager of Vision Fame International Holding Limited (Stock Code: 1315) since July 2014. Mr. Law worked in Win Capital Investments Limited, a subsidiary of Brightoil Petroleum (Holdings) Limited (stock code: 933), the issued shares of which are listed on the Main Board of the Stock Exchange, from October 2010 to July 2014 and his last position was the deputy chief financial officer and treasury manager. He has also been an independent non-executive director of JC Group Holdings Limited (stock code: 8326) since November 2013, the issued shares of which are listed on GEM.

Ms. WONG Wai Ling (黃慧玲), aged 53, was appointed as an independent non-executive Director on 2 August 2014. Ms. Wong has over 20 years of experience in accounting and auditing. Ms. Wong was admitted as an associate of the Chartered Association of Certified Accountants in April 1990 and registered as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in June 1991. Ms.

DIRECTORS AND SENIOR MANAGEMENT

Wong has become a fellow member of the Chartered Association of Certified Accountants since April 1995 and a fellow member of Hong Kong Institute of Certified Public Accountants since February 2001.

Ms. Wong received a bachelor of arts degree from the University of Hong Kong in November 1983.

Ms. Wong is an independent non-executive director of China Ruifeng Renewable Energy Holdings Limited (stock code: 527), Overseas Chinese Town (Asia) Holdings Limited (stock code: 3366), AVIC International Holdings Limited (stock code: 161) and Yongsheng Advanced Materials Company Limited (stock code: 3608), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Ms. Wong also acts as the chairman of the audit committee of each of these listed companies. Ms. Wong is also an executive director and chief executive officer of JC Group Holdings Limited (stock code: 8326), whose shares are listed on GEM.

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed above, each of our Directors confirms with respect to him/her that: (i) he/she has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not hold any other position in our Company or any of its subsidiaries; (iii) save as disclosed in the section “Further information about Substantial Shareholders, Directors and experts – Disclosure of interests” in Appendix IV to this prospectus, he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; (iv) there is no other information that should be disclosed for him/her pursuant to Rule 17.50(2) of the GEM Listing Rules; and (v) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

The following table sets out the information regarding the senior management team of our Group:

Name	Age	Date of joining our Group	Date of appointment for the present position	Present position	Principal responsibilities	Relationship with other Director(s) and/or senior management
Mr. CHOW Kwok Fai (周國徽)	41	July 2005	July 2005	Quantity Surveyor Manager	Quantity surveying, quality control and safety supervision	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment for the present position	Present position	Principal responsibilities	Relationship with other Director(s) and/or senior management
Mr. WAN Chi Cheong (尹志昌)	38	June 1999	January 2004	Project Manager	Overall management of site works, quality control and safety supervision	Nil

Mr. CHOW Kwok Fai (周國徽), aged 41, is the quantity surveyor manager of our Group principally responsible for quantity surveying, quality control and work safety supervision. Mr. Chow joined our Group as quantity surveyor manager in May 2005. Mr. Chow has over 19 years of experience in the construction and engineering industry in Hong Kong.

Mr. Chow obtained a basic mechanical craft certificate from Vocational Training Council in July 1989, a Technician Preparatory Certificate (Mechanical Engineering) from Vocational Training Council in July 1990, a certificate in building studies from Vocational Training Council in July 1997, and a higher certificate in building studies from Hong Kong Technical Colleges in July 2000. Mr. Chow has not held any directorship in any public listed company in the past three years.

Mr. WAN Chi Cheong (尹志昌), aged 38, is the project manager of our Group principally responsible for overall management of site works, quality control and work safety supervision. Mr. Wan first joined our Group in June 1999 as assistant engineer and was subsequently promoted to the current position in January 2004. Mr. Wan has accumulated over 14 years of experience working in our Group. Mr. Wan obtained a higher diploma in structural engineering from Hong Kong Technical Colleges in September 1999. Mr. Wan has not held any directorship in any public listed company in the past three years.

COMPANY SECRETARY

Ms. AU Shuk Man (歐淑敏), aged 29, was appointed as the company secretary of our Company on 2 August 2014. Ms. Au joined Drillcut as an accounting manager in March 2014. She became a member of the Hong Kong Institute of Certified Public Accountants in January 2011. Ms. Au graduated from the City University of Hong Kong with a degree of Bachelor of Business Administration (Honours) in Accountancy in November 2007 and has over 6 years of experience in accounting. Ms. Au worked at Grant Thornton as an accountant in its assurance division from September 2007 to January 2010. She also worked at PricewaterhouseCoopers Limited from February 2010 to August 2011 and from October 2011 to July 2013 where her last position was senior associate in its assurance department.

COMPLIANCE OFFICER

Ms. PEI Wing Sze, Clare was appointed as the compliance officer of our Company on 2 August 2014. Please refer to the section “Directors and senior management – Directors” in this prospectus for the profile of Ms. Pei.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

The executive Directors, the independent non-executive Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. Our Group regularly reviews and determines the remuneration and compensation packages of our Directors and senior management by reference to, among others, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group. Our Directors may also receive options to be granted under the Share Option Scheme.

REMUNERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us for each of the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 to those persons who have been or were our Directors was approximately HK\$1.5 million, HK\$1.5 million and HK\$0.4 million respectively.

During the Track Record Period, no emoluments were paid by our Group to our Directors as an inducement to join or upon joining our Group or as compensation for loss of office. No Director has waived or agreed to waive any emoluments during the Track Record Period.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment of any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	<i>HK\$</i>
Executive Directors	
Mr. Pei	936,000
Ms. Pei	936,000
	<i>HK\$</i>
Independent non-executive Directors	
Prof. Lam Sing Kwong Simon	120,000
Mr. Law Yiu Sing	120,000
Ms. Wong Wai Ling	120,000

DIRECTORS AND SENIOR MANAGEMENT

Of our Group's five highest paid individuals during the Track Record Period, 2 of them were our Directors whose emoluments are disclosed above. The emoluments in respect of the remaining 3 individuals during the Track Record Period are as follows:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> (unaudited)	Three months ended 31 March 2014 <i>HK\$'000</i>
Salaries and allowances	1,269	1,353	344	478
Discretionary bonuses	24	45	15	30
Retirement scheme contribution	42	45	11	11
	1,335	1,443	370	519

The emoluments of each of the aforementioned 3 non-Director highest paid individuals were below HK\$1.0 million.

During the Track Record Period, no emoluments were paid by our Group to the above highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office as a director or management of any members of our Group.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee on 2 August 2014 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The audit committee of our Company consists of three members, namely Mr. Law Yiu Sing, Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling. Mr. Law Yiu Sing currently serves as the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee on 2 August 2014 with its written terms of reference in compliance with paragraph B1.2 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendations on the remuneration of our Directors and management.

DIRECTORS AND SENIOR MANAGEMENT

The remuneration committee of our Company consists of three members, namely Prof. Lam Sing Kwong Simon, Ms. Pei and Mr. Law Yiu Sing. Prof. Lam Sing Kwong Simon currently serves as the chairman of the remuneration committee.

Nomination committee

Our Company established a nomination committee on 2 August 2014 with its written terms of reference paragraph A5.2 of the Code on Corporate Governance Practices set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management and succession planning for Directors in particular the chairman of the Board.

The nomination committee of our Company consists of three members, namely Mr. Pei, Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling. Mr. Pei currently serves as the chairman of the nomination committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Messis Capital Limited as its compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will consult with and seek advice from the compliance adviser on a timely basis in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in the listing document; and
- (4) where the Stock Exchange makes an inquiry of the listed issuer under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

DIRECTORS AND SENIOR MANAGEMENT

DEVIATION FROM APPENDIX 15 TO THE GEM LISTING RULES

Mr. Pei has been managing our Group's business and overall strategic planning since May 1991. Our Directors believe that the vesting of the roles of chairman and chief executive officer in Mr. Pei is beneficial to the business operations and management of our Group and will provide a strong and consistent leadership to our Group. Accordingly, our Company has not segregated the roles of its chairman and chief executive officer as required by Code Provision A.2.1 of Appendix 15 to the GEM Listing Rules. Except for Code Provision A.2.1 of Appendix 15 to the GEM Listing Rules, our Company's corporate governance practices have complied with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Placing and the Capitalisation Issue (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), each of Mr. Pei and Power Key will control more than 30% of our Company's issued share capital. For the purpose of the GEM Listing Rules, Mr. Pei and Power Key are our Controlling Shareholders. Each of Power Key and Mr. Pei confirms that, other than members of our Group, it or he does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group's business independently from our Controlling Shareholders and their close associates after the Placing:

Management and administrative independence

The Board consists of 5 Directors, of whom 2 are executive Directors and the remaining 3 are independent non-executive Directors. Mr. Pei, an executive Director and chairman of the Board, is also the sole director of Power Key. Each of our Directors is aware of his/her fiduciary duties as a Director which requires, 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 addition, our Company has a senior management team to make the business decisions independently. The 3 independent non-executive Directors will also bring independent judgment to the decision-making process of the Board.

Most members of the senior management of our Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of our Group. The responsibilities of the senior management team of our Group include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of our Group. This ensures the independence of the daily management and operations of our Group. Further details are set out in the section "Directors and senior management" in this prospectus.

Financial independence

Our Company has an independent financial system and makes financial decisions according to our Group's own business needs. Our Directors confirmed that any guarantee, loan or pledge provided by our Controlling Shareholders in favour of our Group will be released or settled, as the case may be, before or upon the Listing. On the other hand, as at

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

the Latest Practicable Date, there was no guarantee, loan or pledge provided by us to our Controlling Shareholders. As at 31 March 2014, there was approximately HK\$1.2 million due from the Selling Shareholder (i.e. Power Key) which mainly comprised the listing expenses due from Power Key and will be repaid out of the proceeds from the Placing to be received by the Selling Shareholder. During the Track Record Period, we had certain amounts due to or from Mr. Pei and/or his close associates. For details, please refer to note 26 to the Accountants' Report set out in Appendix I to this prospectus. As at the Latest Practicable Date, such amounts due to or from Mr. Pei and/or his close associates had been fully settled. There had been certain shareholder's loan advanced by Mr. Pei to us, which had been fully repaid to or waived by Mr. Pei as at the Latest Practicable Date. On 10 April 2014, Ultimate Expert had allotted and issued 999 shares to Mr. Pei at par for repayment of a shareholder's loan amounting to HK\$8.0 million (which had been advanced by Mr. Pei to our Group for the settlement of expenses in relation to the Listing). Pursuant to a deed of release dated 31 March 2014 executed by Mr. Pei in favour of Drillcut, the shareholder's loan advanced by Mr. Pei to Drillcut amounting to HK\$2.8 million had been fully released and discharged by Mr. Pei. Please also refer to the section "Connected Transactions" in this prospectus in relation to certain related party transactions during the Track Record Period which had been discontinued prior to the Latest Practicable Date or will be continued after the Listing. Our Directors believe that our Group is capable of obtaining financing from independent third parties, if necessary, without reliance on our Controlling Shareholders after the Listing. Therefore, our Group will be financially independent from our Controlling Shareholders after the Listing.

Operational independence

Our Group has established its own organisational structure made of individual departments, each with specific areas of responsibilities. Save for our premises for operational use which is leased from Grandwin under the Tenancy Agreement (details of which are set out in the section "Connected transactions" in this prospectus), our properties are leased from independent third parties. Our premises for operational use were used by Mr. Pei's close associates during the Track Record Period, and such uses were ceased as at the Latest Practicable Date. Save as disclosed above, our Group did not share any operational resources, such as office premises, sales and marketing and general administration resources with our Controlling Shareholders and its close associates during the Track Record Period. Our Group has also established a set of internal controls to facilitate the effective operation of its business. Our Group's customers and suppliers are all independent from our Controlling Shareholders. Our Group does not rely on our Controlling Shareholders or their close associates and have its independent access to customers and suppliers.

Our Directors consider that our Group's operations do not depend on our Controlling Shareholders because (i) there is no competing business between our Group and any of our Controlling Shareholders; and (ii) our Group will not be relying on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor have our Group given any guarantee for the benefit of any of our Controlling Shareholders upon Listing.

On the basis of the matters disclosed in this section, our Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Mr. Pei, Mrs. Pei and Power Key (each the “**Covenantor**” and collectively the “**Covenantors**”) entered into a deed of non-competition dated 2 August 2014 in favour of our Company and our subsidiaries (the “**Deed of Non-competition**”). Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries) that, save and except as disclosed in this prospectus, during the period that the Deed of Non-competition remains effective, he/she/it shall not, and shall procure that his/her/its close associates (other than any member of our Group) not to carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group within Hong Kong and such other parts of the world where any member of our Group may operate from time to time, save for the holding of not more than 5% shareholding interests (individually or with his/her/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/her/its close associates).

Each of the Covenantors 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 procure that his/her/its close associates to promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at 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 our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

- (a) our independent non-executive Directors shall review on an annual basis the above undertakings from the Covenantors and to evaluate the effective implementation of the Deed of Non-competition;
- (b) each of the Covenantors undertakes to provide any information as is reasonably required by our Group or our independent non-executive Directors, as a basis to decide whether to exercise the right of first refusal by our Company from time to time; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) each of the Covenantors undertakes to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition, and to provide an annual confirmation on the compliance of the non-competition undertaking for inclusion in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Division granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreement having been fulfilled (or where applicable, waived) and the Underwriting Agreement not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date specified in the Underwriting Agreement (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this prospectus, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on the date on which (i) in relation to any Covenantors, when he/she/it together with his/her/its close associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the GEM 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 provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Covenantors; or (ii) our Shares cease to be listed 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).

As our Controlling Shareholders have given non-competition undertakings in favour of our Company, and other than members of our Group, none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that we are capable of carrying on our business independently of our Controlling Shareholders following the Listing.

Other than members of our Group, none of our Controlling Shareholders and our Directors or their respective close associates has interests in any business which competes or is likely to compete with the business of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (1) the Articles provide that a Director shall not vote (nor shall he/she be counted in the quorum)¹⁶³ on any resolution of the Board in respect of any contract or arrangement or proposal in which he/she or any of his close associate(s) has/have a material interest, and if he/she shall do so his/her vote shall not be counted (nor shall he/she be counted in the quorum for that resolution), but this prohibition shall not apply to the exceptions as stated in the Articles where such exceptions are consistent with those provided in Appendix 3 to the GEM Listing Rules;
- (2) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (3) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (4) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (5) our Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (6) our independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its close associates to involve or participate in any business in competition with or likely to be in competition with the existing business activity of any member of our Group within Hong Kong and such other parts of the world where any member of our Group may operate from time to time and if so, any condition to be imposed; and
- (7) our independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-competition or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out in the section “Relationship with our Controlling Shareholders – Corporate governance measures” in this prospectus, our Directors believe that the interest of the Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of option that may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be 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 any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate percentage of shareholding immediately following completion of the Capitalisation Issue and the Placing
Mr. Pei (<i>Note 1</i>)	Interest in controlled corporation	355,539,000	57.35%
Mrs. Pei (<i>Note 2</i>)	Interest of spouse	355,539,000	57.35%
Ms. Pei (<i>Note 3</i>)	Interest in controlled corporation	109,461,000	17.65%
Mr. Choi Chi Chung (<i>Note 4</i>)	Interest of spouse	109,461,000	17.65%
Power Key (<i>Note 1</i>)	Beneficial owner	355,539,000	57.35%
Talent Great (<i>Note 3</i>)	Beneficial owner	109,461,000	17.65%

Notes:

1. Mr. Pei beneficially owns Power Key as to 74.55% and is deemed, or taken to be, interested in all our Shares held by Power Key upon Listing for the purposes of the SFO. Mr. Pei is an executive Director, the chairman of our Company and the sole director of Power Key.
2. Mrs. Pei is the spouse of Mr. Pei and is deemed, or taken to be, interested in all our Shares in which Mr. Pei is interested upon Listing for the purposes of the SFO. Mrs. Pei also beneficially owns Power Key as to 25.45%.
3. Ms. Pei beneficially owns Talent Great as to 100% and is deemed, or taken to be, interested in all our Shares held by Talent Great upon Listing for the purposes of the SFO. Ms. Pei is an executive Director and the sole director of Talent Great.
4. Mr. Choi Chi Chung is the spouse of Ms. Pei and is deemed, or taken to be, interested in all our Shares in which Ms. Pei is interested upon Listing for the purposes of the SFO.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of option that may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be 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 any other member of our Group.

SHARE CAPITAL

SHARE CAPITAL

Without taking into account any Shares which may be issued upon exercise of any option that may be granted under the Share Option Scheme, our share capital immediately following the Capitalisation Issue and the Placing will be as follows:

<i>Authorised share capital</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Placing:</i>		<i>HK\$</i>
1,000	Shares in issue	10
511,499,000	Shares to be issued pursuant to the Capitalisation Issue	5,114,990
<u>108,500,000</u>	Shares to be issued pursuant to the Placing	<u>1,085,000</u>
<u>620,000,000</u>		<u>6,200,000</u>

MINIMUM PUBLIC FLOAT

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

RANKING

The Placing Shares will rank pari passu in all respects with all our Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the Listing Date other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 2 August 2014, subject to the share premium account of our Company being credited as a result of the issue of the New Shares pursuant to the Placing, our Directors are authorised to allot and issue a total of 511,499,000 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on 2 August 2014 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$5,114,990 standing to the credit of the share premium account of our Company, which shall rank pari passu in all respects with the existing issued Shares.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section “Structure and conditions of the Placing – Conditions of the Placing” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Placing; and
- (b) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in the section “Share capital – General mandate to repurchase shares” below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or the 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 our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles of Association; or
- (c) the time when it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please refer to the section “Further information about our Company – Written resolutions of our Shareholders passed on 2 August 2014” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section “Structure and conditions of the Placing – Conditions of the Placing” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section “Further information about our Company – Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of our Company’s next annual general meeting; or
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles of Association; or
- (c) the time when it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please refer to the section “Further information about our Company – Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in Appendix III to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 2 August 2014. Details of the principal terms of the Share Option Scheme are summarised in the section “Share Option Scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited combined financial information, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Group's combined financial statements have been prepared in accordance with HKFRSs. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, see the section "Risk factors" in this prospectus.

OVERVIEW

We are principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor. Our concrete demolition services are mainly concerned with the removal of pieces or sections of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing, depending on the situation. Our services are required in many different situations including, among others, addition and alteration works and redevelopment projects in buildings, roads, tunnels and underground facilities.

We undertake jobs of considerably different scales, ranging from a core drilling job (i.e. the making of circular cuts of precise diameter in a concrete structure) which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete.

Our Group's revenue is principally derived from fees for the provision of our concrete demolition services. Our customers primarily include main contractors and subcontractors of various different types of construction and civil engineering projects in Hong Kong.

Our Directors are of the view that the demand for concrete demolition services in Hong Kong in general will continue to grow both in the public and private sectors. This is supported by the expected increase in public expenditures on infrastructure and the private development projects as evidenced by the IPSOS Report. For the two years ended 31 December 2012 and 2013, our revenue grew by approximately 30.8% from approximately HK\$56.9 million to HK\$74.4 million. Our revenue increased by approximately 40.9% from approximately HK\$14.8 million for the three months ended 31 March 2013 to approximately HK\$20.8 million for the three months ended 31 March 2014.

FINANCIAL INFORMATION

For each of two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our total revenue attributable to our Group's largest customer amounted to approximately 7.7%, 7.5% and 14.2% respectively, while our total revenue attributable to our Group's five largest customers amounted to approximately 26.6%, 26.9% and 32.5% respectively.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2014 and became the holding company of the subsidiaries now comprising our Group on 8 May 2014 pursuant to the Reorganisation, details of which are set out in the section "Further information about our Company – Corporate Reorganisation" in Appendix IV to this prospectus. The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period, all of which presented in HK dollars, have been prepared as if the Reorganisation had been completed as at the beginning of and throughout the Track Record Period.

The combined financial statements have been prepared by our Directors in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the GEM Listing Rules. HKFRSs include Hong Kong Accounting Standards and interpretations. Intra-group balances and transactions, if any, have been fully and properly eliminated.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set out below and in the section "Risk factors" in this prospectus.

Demand for concrete demolition services in Hong Kong

Our results of operations are affected by the number and availability of public and private sector construction and civil engineering projects in Hong Kong, which in turn are affected by various factors, including but not limited to the general economic conditions in Hong Kong, changes in government policies relating to the Hong Kong property markets, the general conditions of the property markets in Hong Kong, and the amount of investment in the construction of new infrastructure and improvement of existing infrastructure. A downturn in any sector may result in a significant decrease in the number of concrete demolition jobs available in Hong Kong in general. For instance, an economic downturn in Hong Kong, an outbreak of epidemic disease, and/or adverse government policies on the property markets in Hong Kong may lead to a significant decline in the number of private housing construction projects. On the other hand, government spending on infrastructures and the number of public sector projects may be affected by factors such as government budgets and town planning.

FINANCIAL INFORMATION

There is no assurance that the number of private sector projects and/or public sector projects will not decrease in the future. In the event that the demand of concrete demolition jobs decreases as a result of the decrease in the number of private and/or public sector projects in Hong Kong, our businesses in general and our results of operations may be adversely and materially affected.

Pricing of our concrete demolition services

The concrete demolition jobs undertaken by us are generally awarded by our customers after they accept our quotations. Our pricing is determined on a case-by-case basis. Factors that we take into account in determining our fees generally include: (i) the estimated number and types of workers required; (ii) the difficulties of the job; (iii) the demolition methods and techniques expected to be applied; (iv) the estimated number and types of machines required; (v) the availability of our manpower and resources; (vi) the completion time requested by customers; (vii) any further subcontracting required; (viii) the overall cost in undertaking the job; (ix) the past prices offered to the customer; and (x) the prevailing market conditions. While we aim to offer quotations that maximise Shareholders' value, offering uncompetitive quotations may render our quotations unsuccessful. Offering quotations that are below our costs may on the other hand erode or eliminate our gross profit. Failure to balance the various factors in determining quotation price will adversely affect our financial performance and operation results. In addition, our estimate of the time and costs involved in a concrete demolition job in determining our fee is based on our experience and factors that we believe to be relevant and reasonable and there is no assurance that the actual amount of time and costs would not exceed our estimation.

Collectability and timing of collection of our trade receivables and retention receivables

We issue invoice to our customer when the works are completed by us, and reviewed and approved by our customers. A credit period of 15 days is stated on the invoices issued by us to our customers. However, there can be no assurance that our customers will settle our invoices on time and in full. In addition, a portion of the payment, normally at 5%, may be withheld by our customers as retention money depending on the agreement with individual customers and there can be no assurance that such retention money will be released by our customers to us on a timely basis and in full upon job completion. As at 31 December 2012 and 2013 and 31 March 2014, we recorded retention receivables (net of impairment) of approximately HK\$2.1 million, HK\$2.9 million and HK\$2.9 million respectively. As at 31 December 2012 and 2013 and 31 March 2014, we recorded trade receivables (excluding retention receivables and net of impairment) of approximately HK\$12.2 million, HK\$22.4 million and HK\$22.1 million respectively, of which approximately HK\$10.5 million, HK\$16.0 million and HK\$14.1 million respectively were past due but not impaired as they were due from customers of whom there was no history of default during the Track Record Period. For each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our trade receivables turnover days were 80.6 days, 85.0 days and 96.5 days respectively, which were significantly longer than the credit period of 15 days stated on the invoices issued by us to our customers. Any difficulty in collecting a substantial portion of our trade receivables could materially and adversely affect our cash flows and financial positions.

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Investment in and use of machinery in our operations

Our concrete demolition services rely on the machinery and equipment owned by us. Market developments in and demand for different concrete demolition techniques and different types of machinery or equipment may change continuously. If we fail to remain attentive to and invest in suitable machinery to cope with the latest development in such market trends or demands and to cater for different needs and requirements of different customers, our overall competitiveness and thus our financial performance and operation results may be adversely affected.

In addition, there is no assurance that our machinery and equipment 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, damaged or lost machinery or equipment cannot be repaired and/or replaced in a timely manner, our operations and financial performance could be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Group's financial statements have been prepared in accordance with HKFRSs. The significant accounting policies adopted by our Group are set forth in details in the Accountants' Report set out in Appendix I to this prospectus. Some of the accounting policies involve subjective judgments, estimates, and assumptions made by our management, all of which are subject to inherently uncertainties. The estimates and the associated assumptions are based on historical data and our experience and factors that we believe to be relevant and reasonable under the circumstances.

The following paragraphs summarise the critical accounting policies and estimates applied in the preparation of our Group's combined financial statements.

Revenue recognition

Our revenue is principally derived from fees for the provision of our concrete demolition services. Revenue from provision of concrete demolition services is recognised based on the stage of completion of jobs, provided that the stage of job completion and the gross billing value of the job can be measured reliably.

We measure the stage of job completion by reference to our work done as reviewed and approved by our customers. We make progress billing to customers when our work done is reviewed and approved by our customers.

Impairment of trade receivables

We determine the provision for impairment of trade receivables based on a number of factors, including the aging of the receivable balance, results of follow-up procedures, customers' credit history, customers' financial position, and the current market condition. If we are aware that the financial conditions of the customers deteriorate, which may affect their ability to make payments, additional allowances may be required.

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Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant and machinery (<i>note</i>)	25%
Furniture and fixtures	20%
Motor vehicles	25%
Decoration	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and net gains" in the combined statement of profit or loss and other comprehensive income.

Note:

Depreciation on plant and machinery is calculated using the straight-line method at a rate of 25% to allocate their cost to their residual values over their estimated useful lives. We estimate the useful lives of plant and machinery in order to ascertain the amount of depreciation charges for each reporting period.

We consider that an annual rate of 25% for calculating the depreciation on plant and machinery is appropriate because the useful lives of plant and machinery are estimated to be 4 years at the time of purchase. Effects of subsequent repairs and maintenance on the plant and machinery and the probable future economic benefits associated with subsequent repairs and maintenance including those resulting from the possible enhancement of the useful period of the plant and machinery are impracticable to be measured upon reliably. Subsequent repairs and maintenance costs in respect of plant and machinery are thus charged to profit or loss during the financial period in which they are incurred and are not capitalised or included in the plant and machinery's

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carrying amount or otherwise recognised as assets to be depreciated. Subsequent repairs and maintenance costs and their associated effects including the possible enhancement of the useful period of the plant and machinery are therefore not taken in account when estimating the useful lives of plant and machinery for the purpose of determining the appropriate rate of depreciation of the initial purchase cost of the plant and machinery. Therefore, we applied such policy consistently throughout the Track Record Period notwithstanding that certain plant and machinery may remain useful after four years due to subsequent repairs and maintenance.

We perform annual reviews on the estimated useful lives of plant and machinery at the end of each reporting period based on the aforesaid policy. During the Track Record Period, no discrepancies in the useful lives of plant and machinery were identified during the annual reviews for the purpose of ascertaining the amount of depreciation charges for each reporting period in respect of the initial purchase costs of plant and machinery without taking into account subsequent repairs and maintenance.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statement of profit or loss on a straight-line basis over the period of the lease.

Our Group leases certain property, plant and equipment. Leases of property, plant and equipment where our Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the combined statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

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Our Group is subject to income taxes in Hong Kong where it operates and generates taxable income during the Track Record Period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carrying amounts as set out in the Accountants' Report in Appendix I to this prospectus. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period during the Track Record Period and are expected to apply when the related deferred income tax asset is realised or the deferred taxation liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when our Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amounts have been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of our Group. It can also be a present

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obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes as set out in the Accountants' Report in Appendix I to this prospectus. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of our Group.

Contingent assets are not recognised but are disclosed in the notes to the Accountants' Report when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

SUMMARY OF RESULTS OF OPERATIONS

The combined statements of 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 prospectus. As such, the following sections should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended		Three months	
	31 December	31 December	ended 31 March	ended 31 March
	2012	2013	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Revenue	56,875	74,394	14,750	20,780
Cost of sales	<u>(41,389)</u>	<u>(47,014)</u>	<u>(7,988)</u>	<u>(11,330)</u>
Gross profit	15,486	27,380	6,762	9,450
Other income and net gains	59	143	69	3
Administrative and other operating expenses	<u>(12,703)</u>	<u>(14,606)</u>	<u>(3,583)</u>	<u>(5,663)</u>
Operating profit before finance costs and income tax	2,842	12,917	3,248	3,790
Finance costs	<u>(353)</u>	<u>(381)</u>	<u>(104)</u>	<u>(102)</u>
Profit before income tax	2,489	12,536	3,144	3,688
Income tax expense	<u>(120)</u>	<u>(2,706)</u>	<u>(1,152)</u>	<u>(1,001)</u>
Profit and total comprehensive income for the year/period attributable to owners of our Company	<u>2,369</u>	<u>9,830</u>	<u>1,992</u>	<u>2,687</u>

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PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

Revenue represents receipts from provision of concrete demolition services in the ordinary course of our business. Revenue from provision of concrete demolition services is recognised based on the stage of completion of the jobs as reviewed and approved by our customers. Revenue recognised for each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 are as follows:

	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	

Turnover

Provision of concrete demolition services	<u>56,875</u>	<u>74,394</u>	<u>14,750</u>	<u>20,780</u>
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During the Track Record Period, we were engaged in the provision of concrete demolition services in Hong Kong only. Our customers primarily include main contractors and subcontractors of various different types of construction and civil engineering projects in Hong Kong.

In general, job awarded to us represents part of a construction or civil engineering project. Such projects can generally be categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractors are employed by Government department or statutory body, while private sector projects refer to projects that are not public sector projects. The following table sets out a breakdown of our Group's revenue during the Track Record Period attributable to public and private sector projects:

	Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
					(unaudited)			
Private sector projects	35,950	63.2	49,557	66.6	8,832	59.9	14,811	71.3
Public sector projects	<u>20,925</u>	<u>36.8</u>	<u>24,837</u>	<u>33.4</u>	<u>5,918</u>	<u>40.1</u>	<u>5,969</u>	<u>28.7</u>
Total	<u>56,875</u>	<u>100.0</u>	<u>74,394</u>	<u>100.0</u>	<u>14,750</u>	<u>100.0</u>	<u>20,780</u>	<u>100.0</u>

During each of the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, our revenue was contributed by 2,628, 2,675, 577 and 595 jobs and by 646, 603, 244 and 240 customers respectively. We undertake jobs of considerably different scales, ranging from a core drilling job which can be completed

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within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take up to several months to complete. The following table set forth a breakdown of our jobs undertaken during the Track Record Period by range of income:

Income derived from the job	Number of jobs			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$5,000	1,381	1,409	320	278
HK\$5,000 to below HK\$50,000	1,077	1,034	212	244
HK\$50,000 to below HK\$200,000	128	175	33	56
HK\$200,000 to below HK\$500,000	25	38	7	13
HK\$500,000 to below HK\$1,000,000	10	11	3	2
HK\$1,000,000 or above	7	8	2	2
Total number of jobs undertaken during the year	<u>2,628</u>	<u>2,675</u>	<u>577</u>	<u>595</u>

As we undertake jobs of considerably different scales, the revenue contribution from each customer to us varies significantly:

Range of revenue contribution during each year	Number of customers			
	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
Below HK\$100,000	549	494	213	195
HK\$100,000 to below HK\$500,000	70	74	27	34
HK\$500,000 to below HK\$1,000,000	15	20	2	9
HK\$1,000,000 or above	12	15	2	2
Total number of customers with revenue contribution to us for the year	<u>646</u>	<u>603</u>	<u>244</u>	<u>240</u>

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The total number of jobs undertaken by us increased from 2,628 jobs in 2012 to 2,675 jobs in 2013, representing an increase of approximately 1.8%, while the total number of customers with revenue contribution to us decreased from 646 in 2012 to 603 in 2013, representing a decrease of approximately 6.7%. The total number of jobs undertaken by us increased from 577 jobs for the three months ended 31 March 2013 to 595 jobs for the three months ended 31 March 2014, representing an increase of approximately 3.1%, while the total number of customers with revenue contribution to us decreased from 244 for the three months ended 31 March 2013 to 240 for the three months ended 31 March 2014, representing a decrease of approximately 1.6%.

Average revenue per job increased from approximately HK\$21,642 in 2012 to approximately HK\$27,811 in 2013, representing an increase of approximately 28.5%, and from approximately HK\$25,563 for the three months ended 31 March 2013 to approximately HK\$34,924 for the three months ended 31 March 2014, representing an increase of approximately 36.6%; while average amount of revenue contributed by each customer increased from approximately HK\$88,000 in 2012 to approximately HK\$123,000 in 2013, representing an increase of approximately 39.8%, and from approximately HK\$60,000 for the three months ended 31 March 2013 to approximately HK\$87,000 for the three months ended 31 March 2014, representing an increase of approximately 45.0%.

The aforementioned changes in the total number of jobs and customers and average revenue per job and per customer were primarily due to the following reasons:

- (i) our relative increase in efforts in pursuing jobs of relatively larger scales in view of the available business opportunities of larger-scale jobs presented to us by customers, which in turn was due to, in the opinion of our Directors, the continued increase in major infrastructure and construction projects in Hong Kong, which is consistent with the findings of the IPSOS Report, as well as our increasing use of remote controlled demolition robots, which is further discussed in the following paragraph. As we allocate more of our labour and machinery resources in executing jobs of relatively larger scales, we undertook fewer jobs of smaller scales, as evidenced by the decrease of approximately 0.6% in the number of jobs with income of less than HK\$50,000 from a total of 2,458 jobs in 2012 to a total of 2,443 jobs in 2013, as opposed to the increase of approximately 11.8% in the number of jobs with income of HK\$500,000 or above from a total of 17 jobs in 2012 to a total of 19 jobs in 2013 (with the highest income per job of approximately HK\$3.3 million in 2012 and approximately HK\$3.9 million in 2013);
- (ii) our increasing use of remote controlled demolition robots in concrete demolition services after we acquired 4 sets in late 2011 and an additional 4 sets in 2012 (i.e. at the beginning of the Track Record Period, we had a total of 4 sets of remote controlled demolition robots, being those purchased in late 2011 as aforementioned). Certain jobs may be performed by the use of remote controlled demolition robots or a combination of alternative machinery such as coring machines and sawing machines. In general, when compared to the use of alternative machinery, the use of remote controlled demolition robots can lead to a lower quotation offered by us to our customer for the same job due to the

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expected reduced amount of time required for completion of the job and the reduced number of workers required at work site. The lower quotation benefits customers directly and increase our competitiveness from customers' perspective. In addition, the expected reduced amount of time required for completion of the job also contributed to the increase in our competitiveness from customers' perspective. As a result, our Directors consider that the use of remote controlled demolition robots is sought after by some of our customers, therefore leading to more business opportunities being presented to us for selection, including those that are larger in scale and involving or requiring the use of remote controlled demolition robots. As such, although the total number of customers with revenue contribution to us decreased from 646 in 2012 to 603 in 2013 and the total number of jobs undertaken by us remained relatively stable at 2,628 jobs in 2012 and 2,675 jobs in 2013, our average revenue per job increased from approximately HK\$21,642 in 2012 to approximately HK\$27,811 in 2013, representing an increase of approximately 28.5%, while the average amount of revenue contributed by each customer increased from approximately HK\$88,000 in 2012 to approximately HK\$123,000 in 2013. Please also refer to the section "Financial information – Principal components of results of operations – Cost of sales" in this prospectus below for a discussion of the effect of the use of remote controlled demolition robots on our cost of sales and operational efficiency and capacity.

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

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Cost of sales

Our cost of sales amounted to approximately HK\$41.4 million and HK\$47.0 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 13.6%; and approximately HK\$8.0 million and HK\$11.3 million for each of the three-month periods ended 31 March 2013 and 2014 respectively, representing an increase of approximately 41.8%. The table below sets forth a breakdown of our cost of sales by nature during the Track Record Period:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> (unaudited)	Three months ended 31 March 2014 <i>HK\$'000</i>
Cost of sales				
Raw materials and consumables	7,173	8,246	1,212	1,999
Subcontracting charges	15,392	19,356	2,874	4,058
Staff costs	11,116	11,224	2,709	3,134
Transportation expenses	1,207	1,881	177	395
Machinery rental cost	1,421	300	48	35
Repair and maintenance	1,287	1,274	59	479
Depreciation of owned assets	1,304	2,314	313	630
Depreciation of assets under finance leases	2,294	2,294	573	573
Other expenses	195	125	23	27
	<u>41,389</u>	<u>47,014</u>	<u>7,988</u>	<u>11,330</u>

Cost of sales primarily comprises:

- (i) costs of raw materials and consumables, which are direct costs for purchasing tools used in the provision of our concrete demolition services such as saw blades and cutting wires;
- (ii) subcontracting charges, which are direct costs for engaging subcontractors for carrying out portion of our concrete demolition jobs usually when we consider it appropriate or necessary to subcontract after taking into account the availability of our labour resources and the opportunity cost of performing the work with our own resources. For each of the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, we had 1,323, 1,384, 319 and 308 jobs respectively involving subcontractors and the average subcontracting charge per job was approximately HK\$11,634, HK\$13,986, HK\$9,009 and HK\$13,175 respectively. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our subcontracting charges on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 17%, which correspond to the approximate minimum and maximum year-on-year

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fluctuations in average daily wages of concrete demolition workers from 2009 to 2013 as shown in the IPSOS Report (see “Industry overview – Concrete demolition industry overview – Average wage trend for workers in the concrete demolition industry” of this prospectus). Having considered that our subcontractors generally provide labours while we provide machinery to our subcontractors in a typical subcontracting arrangement, such hypothetical fluctuation rates as derived from the findings of the IPSOS Report in relation to the average daily wages of concrete demolition workers are considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall subcontracting charges	+5%	+17%	-5%	-17%
Change in profit before tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(770)	(2,617)	770	2,617
Year ended 31 December 2013	(968)	(3,291)	968	3,291
Three months ended 31 March 2013	(144)	(489)	144	489
Three months ended 31 March 2014	(203)	(690)	203	690
Change in profit after tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(643)	(2,185)	643	2,185
Year ended 31 December 2013	(808)	(2,748)	808	2,748
Three months ended 31 March 2013	(120)	(408)	120	408
Three months ended 31 March 2014	(169)	(576)	169	576

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- (iii) staff costs, which are salaries and benefits provided to our staff who are directly involved in carrying out our concrete demolition services. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our staff costs (in respect of our staff who are directly involved in carrying out our concrete demolition services) on our profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 17%, which correspond to the approximate minimum and maximum year-on-year fluctuations in average daily wage of concrete demolition workers from 2009 to 2013 as shown in the IPSOS Report (see “Industry overview – Concrete demolition industry overview – Average wage trend for workers in the concrete demolition industry” of this prospectus) and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall staff costs (in respect of staff who are directly involved in carrying out our concrete demolition services)	+5%	+17%	-5%	-17%
Change in profit before tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(556)	(1,890)	556	1,890
Year ended 31 December 2013	(561)	(1,908)	561	1,908
Three months ended 31 March 2013	(135)	(461)	135	461
Three months ended 31 March 2014	(157)	(533)	157	533
Change in profit after tax	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012	(464)	(1,578)	464	1,578
Year ended 31 December 2013	(469)	(1,593)	469	1,593
Three months ended 31 March 2013	(113)	(385)	113	385
Three months ended 31 March 2014	(131)	(445)	131	445

- (iv) transportation expenses, which include fees for transporting away the concrete and other unwanted materials resulting from our concrete demolition services from work sites to landfills;
- (v) machinery rental cost, which are rental costs for renting machinery and equipment necessary for carrying out our concrete demolition works such as heavy-duty metal stands and electricity generators, and which includes the machinery rental cost of approximately HK\$0.6 million paid to Grandwin in 2012 as described in the section “Connected transactions” in this prospectus;
- (vi) repair and maintenance costs, which are costs for purchasing machinery parts and components for our in-house mechanics to carry out repair and maintenance works; and

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- (vii) depreciation of owned assets and depreciation of assets under finance lease, which are depreciation of plant and machinery involved in carrying out our concrete demolition jobs.

One of our business strategies is to further enhance our machinery and equipment (see the section “Future plans and use of proceeds” in this prospectus). In general, investing in certain types of machinery and equipment, such as remote controlled demolition robots, will reduce our reliance on labour resources (including the use of subcontractors and our own labours) and will therefore likely lead to a decrease in our subcontracting charges and staff costs under our cost of sales as a proportion of our revenue. Certain jobs may be performed by the use of remote controlled demolition robots or a combination of alternative machinery such as coring machines and sawing machines.

In general, when compared to the use of alternative machinery, the use of remote controlled demolition robots can lead to a reduced amount of time required for completion of the job and a reduced number of workers required at work site, resulting in the saving of time and labour resources which can be allocated to work on other concrete demolition jobs that would otherwise require the recruitment of additional workers or the engagement of subcontractors, thereby leading to an increase in our overall productivity and operational capacity as well as our gross profit margin.

For instance, we purchased 4 sets of remote controlled demolition robots in late 2011 and another 4 sets in 2012 (i.e. at the beginning of the Track Record Period, we had a total of 4 sets of remote controlled demolition robots, being those purchased in late 2011 as aforementioned), while our gross profit margin increased from approximately 27.2% in 2012 to approximately 36.8% in 2013, representing an increase of approximately 9.6%. In addition, the aggregate of our subcontracting charges and staff costs under cost of sales represented approximately 46.6% of our revenue in 2012 and approximately 41.1% of our revenue in 2013, representing a decrease of approximately 5.5%, and our average subcontracting charges incurred per job increased from approximately HK\$11,634 in 2012 to approximately HK\$13,986 in 2013, representing an increase of approximately 20.2%, while our average revenue per job increased from approximately HK\$21,642 in 2012 to approximately HK\$27,811 in 2013, representing an increase of approximately 28.5%.

However, due to reasons discussed in the section “Business – Machinery – Service capacity and utilisation rate”, our Directors consider that it is not feasible and not practicable to quantify or provide an estimate of our overall capacity and the level of utilisation of our capacity.

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Gross profit

Our gross profit amounted to approximately HK\$15.5 million and HK\$27.4 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 76.8%; and approximately HK\$6.8 million and HK\$9.5 million for each of the three-month periods ended 31 March 2013 and 2014 respectively, representing an increase of approximately 39.8%. The table below sets forth our gross profit and gross profit margin during the Track Record Period:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Gross profit	15,486	27,380	6,762	9,450
Gross profit margin	27.2%	36.8%	45.8%	45.5%

Gross profit is equal to revenue less cost of sales. Gross profit margin is calculated as gross profit divided by revenue. Please refer to the section “Financial information – Period-to-period comparison of results of operations” in this prospectus for reasons for the fluctuation of gross profit and gross profit margin.

Other income and net gains

Our other income and net gains amounted to approximately HK\$59,000 and approximately HK\$0.1 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 142.4%; and approximately HK\$69,000 and approximately HK\$3,000 for each of the three-month periods ended 31 March 2013 and 2014, representing a decrease of approximately 95.7%. The table below sets forth a breakdown of our other income and net gains by nature during the Track Record Period:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Other income and net gains				
Gain on disposal of property, plant and equipment	23	44	22	–
Others	36	99	47	3
	<u>59</u>	<u>143</u>	<u>69</u>	<u>3</u>

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Other income and net gains primarily comprise:

- (i) gain on disposal of property, plant and equipment, which was recognised due to the disposal of certain fixed assets (mainly including motor vehicles and machines with relatively small carrying value due to replacement) by us during the Track Record Period; and
- (ii) others, which include government grants in relation to the replacement of new vehicle with designated vehicle emission standards pursuant to a scheme of Tax Incentives for Environment-friendly Commercial Vehicles as well as various miscellaneous items.

Administrative and other operating expenses

Our administrative and other operating expenses amounted to approximately HK\$12.7 million and HK\$14.6 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 15.0%; and approximately HK\$3.6 million and HK\$5.7 million for each of the three-month periods ended 31 March 2013 and 2014 respectively, representing an increase of approximately 58.1%. The table below sets forth a breakdown of our administrative and other operating expenses by nature during the Track Record Period:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> (unaudited)	Three months ended 31 March 2014 <i>HK\$'000</i>
Administrative and other operating expenses				
Auditors' remuneration	36	36	9	125
Staff costs, including directors' emoluments	3,928	4,861	1,123	1,351
Depreciation of owned assets	183	484	34	113
Depreciation of assets under finance leases	1,090	604	234	103
Operating lease rental on premises	1,392	1,445	353	362
Travelling	96	132	64	–
Insurance	599	441	343	33
Listing expenses	–	–	–	2,213
Provision for impairment on trade receivables	–	85	–	–
Provision for impairment on retention receivables	–	581	–	–
Entertainment	1,697	1,836	671	639
Motor vehicles expenses	2,425	2,400	486	447
Other expenses	1,257	1,701	266	277
	<u>12,703</u>	<u>14,606</u>	<u>3,583</u>	<u>5,663</u>

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Administrative and other operating expenses primarily comprise:

- (i) staff costs (including directors' emoluments), which include salaries and benefits provided to our Directors and administrative staff;
- (ii) depreciation of owned assets and depreciation of assets under finance lease, which include depreciation of motor vehicles, furniture and fixtures and decoration;
- (iii) operating lease rental on premises, which represents rental expenses for our head office and our other rented premises (including rental paid to connected parties, details of which are disclosed in the section "Connected transactions" in this prospectus);
- (iv) travelling expenses, which represent expenses for travelling between our various premises and work sites incurred by our Directors and staff;
- (v) insurance expenses, which represent cost for maintaining insurance as disclosed in the section "Business – Insurance" in this prospectus;
- (vi) listing expenses, which represent expenses in relation to the Listing;
- (vii) provision for impairment on trade receivables and retention receivables, which are determined on a case-by-case basis and are further discussed in the section "Financial information – Net current assets – Trade and other receivables" in this prospectus;
- (viii) entertainment expenses, which mainly represent costs in relation to the relationship building with existing and potential customers;
- (ix) motor vehicle expenses, which mainly represent costs in relation to the use of our motor vehicles; and
- (x) other expenses, which mainly include expenses incurred for advertising, consultation, legal advisory services, staff welfare and other utilities.

Finance costs

A breakdown of our finance costs for the Track Record Period is set forth in the table below:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> (unaudited)	Three months ended 31 March 2014 <i>HK\$'000</i>
Interest on finance leases	256	298	92	54
Interest on bank borrowings wholly repayable within 5 years	97	83	12	48
	353	381	104	102

Finance costs comprise interest expenses on bank borrowings and finance lease liabilities. During the Track Record Period, our Group purchased certain machines by way of finance leases, under which our banks purchased certain machines from machinery providers and leased back those machines to our Group at stipulated monthly rents in fixed terms.

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Under these finance leases, we were given options to purchase these machines at a nominal amount at the end of the lease terms. Since the terms of these finance leases transfer substantially all the risks and rewards of ownership of the machines to our Group as lessee, the relevant machines were accounted for as our Group's assets under the category of property, plant and equipment.

As at 31 December 2012 and 2013 and 31 March 2014, the interest rates of our banking facilities (including finance lease facilities) ranged from 2.25% to 6.75%, from 2.25% to 6.25% and from 3.25% to 6.25% per annum respectively.

Income tax

Our Group is subject to profits tax in Hong Kong, which is calculated at the rate of 16.5% of the estimated assessable profits for the Track Record Period.

During the Track Record Period, our income tax expenses were as follows:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (unaudited)	Three months ended 31 March 2014 HK\$'000
Profit before income tax	2,489	12,536	3,144	3,688
Income tax expense	120	2,706	1,152	1,001

The effective tax rates of our Group for the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 were approximately 4.8%, 21.6%, 36.6% and 27.1% respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2012 compared to year ended 31 December 2013

Revenue

Our revenue increased from approximately HK\$56.9 million in 2012 to approximately HK\$74.4 million in 2013, representing an increase of approximately 30.8%. Revenue derived from concrete demolition jobs in both private and public sector projects increased.

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Revenue derived from jobs in private sector project increased from approximately HK\$36.0 million in 2012 to approximately HK\$49.6 million in 2013, representing an increase of approximately 37.9%. Revenue derived from jobs in public sector project increased from approximately HK\$20.9 million in 2012 to approximately HK\$24.8 million in 2013, representing an increase of approximately 18.7%. Such increases were mainly due to:

- (i) the increases in general demand for concrete demolition services in Hong Kong as a result of the increases in the amount of general building works and civil engineering works in Hong Kong as shown in the IPSOS Report, and, in particular, the increase in major infrastructure and construction projects in Hong Kong, resulting in more business opportunities (in particular, jobs of larger scales and higher income) being presented to and secured by our Group with our increased efforts in pursuing jobs of larger scales in view of the available business opportunities; and
- (ii) our increasing use of remote controlled demolition robots in concrete demolition services after we acquired 4 sets in late 2011 and an additional 4 sets in 2012 (i.e. at the beginning of the Track Record Period, we had a total of 4 sets of remote controlled demolition robots, being those purchased in late 2011 as aforementioned) as such machines can lead to higher safety and efficiency and, in the opinion of our Directors, were sought after by some of our customers. With our increasing use of remote controlled demolition robots, we were able to choose from jobs that are larger in scale and involving or requiring the use of remote controlled demolition robots, which contributed to the increase in our average revenue per job from approximately HK\$21,642 in 2012 to approximately HK\$27,811 in 2013 and the increase in the average amount of revenue contributed by each customer from approximately HK\$88,000 in 2012 to approximately HK\$123,000 in 2013. In addition, as a result of the purchase of the 4 sets of remote controlled demolition robots in late 2011 and the additional 4 sets in 2012, our revenue attributable to jobs involving the use of remote controlled demolition robots increased from approximately HK\$5.9 million in 2012 to approximately HK\$15.7 million in 2013, representing an increase of approximately HK\$9.9 million (or approximately 168.5%), as illustrated in the following table:

Year ended 31 December 2012		Year ended 31 December 2013		Three months ended 31 March 2013		Three months ended 31 March 2014	
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
(unaudited)							

Revenue attributable to:

– jobs involving the use of remote controlled demolition robots	5,862	10.3	15,741	21.2	1,757	11.9	4,257	20.5
– all other jobs	51,013	89.7	58,653	78.8	12,993	88.1	16,523	79.5
	<u>56,875</u>	<u>100.0</u>	<u>74,394</u>	<u>100.0</u>	<u>14,750</u>	<u>100.0</u>	<u>20,780</u>	<u>100.0</u>

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Furthermore, our Directors consider that the use of remote controlled demolition robots increases our operational efficiency and productivity as well as our overall competitiveness from customers' perspective due to, among other things, shortened time and reduced number of workers required for completion of jobs and potential reduction in costs for customers, thereby contributing to our increase in revenue. For a further discussion in this connection, please refer to the sections "Financial information – Principal components of results of operations – Revenue" and "Financial information – Principal components of results of operations – Cost of sales" in this prospectus.

Cost of sales

Our cost of sales increased from approximately HK\$41.4 million in 2012 to approximately HK\$47.0 million in 2013, representing an increase of approximately 13.6%. Such increase was mainly attributable to the increases in our subcontracting charges, depreciation, transportation expenses and cost of raw materials and consumables, which were slightly offset by decreases in our machinery rental cost.

Our subcontracting charges increased from approximately HK\$15.4 million in 2012 to approximately HK\$19.4 million in 2013, representing an increase of approximately 25.8%. Such increase was primarily due to the increase in amount of works outsourced to subcontractors as a result of our growth in business in 2013 as illustrated by the increase in our revenue as discussed above.

Depreciation of owned assets and assets under finance lease increased from approximately HK\$3.6 million in 2012 to approximately HK\$4.6 million in 2013, representing an increase of approximately 28.1%. Such increase was mainly due to the additions of machinery during the Track Record Period to cope with our business growth.

Transportation expenses increased from approximately HK\$1.2 million to approximately HK\$1.9 million, representing an increase of approximately 55.8%. Such increase was mainly due to the increase in the amount of concrete and other unwanted materials required to be transported away from work sites to landfills as a result of our growth in business in 2013.

Cost of raw materials and consumables increased from approximately HK\$7.2 million to approximately HK\$8.2 million, representing an increase of approximately 15.0%. Such increase was mainly due to the increase in the purchase of saw blades, wires and other raw materials and consumables required in performing our concrete demolition works as a result of our growth in business in 2013.

Machinery rental cost decreased from approximately HK\$1.4 million in 2012 to approximately HK\$0.3 million in 2013, representing a decrease of approximately 78.9%, mainly because we rented certain machinery from Grandwin, a related party, in 2012 for our operation but we purchased such machinery from Grandwin in 2013, ceasing the rental arrangement. Details of such transactions are disclosed in the section "Connected

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transactions” in this prospectus. Also, our additions of machinery during the Track Record Period to cope with our business growth also contributed to the decrease in our demand for renting machinery from third parties and thus the decrease in our machinery rental cost.

Gross profit and gross profit margin

Our gross profit amounted to approximately HK\$15.5 million and HK\$27.4 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 76.8%. In addition, our gross profit margin increased from approximately 27.2% in 2012 to approximately 36.8% in 2013. Such increases were primarily due to:

- (i) the increase in our revenue due to reasons discussed above; and
- (ii) the less-than-proportionate increase in our cost of sales as compared with our increase in revenue, which in turn was primarily due to our increasing use of remote controlled demolition robots in performing our concrete demolition jobs which led to higher efficiency and productivity. We purchased 4 sets of remote controlled demolition robots in late 2011 and another 4 sets in 2012. Although such purchases of remote controlled demolition robots contributed to our increase in depreciation of plant and machinery from approximately HK\$3.6 million in 2012 to approximately HK\$4.6 million in 2013, the increasing use of remote controlled demolition robots in 2013 reduced our reliance on labour resources (including the use of subcontractors) as evidenced by the increase in our staff costs for staff directly involved in carrying out our concrete demolition services by only approximately 1.0% (from approximately HK\$11.1 million in 2012 to HK\$11.2 million in 2013) and the increase in our subcontracting charges by only approximately 25.8% (from approximately HK\$15.4 million in 2012 to HK\$19.4 million in 2013), as compared with our increase in revenue of approximately 30.8%. In addition, the decrease in our machinery rental cost as discussed above also contributed to our less-than-proportionate increase in our cost of sales as compared with our revenue growth.

Other income and net gain

Our other income and net gains amounted to approximately HK\$59,000 and HK\$143,000 for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 142.4%. Such increase was primarily due to (i) the increase in gain on disposal of motor vehicles and machines at higher than their respective carrying values and (ii) the government grants obtained in 2013 in relation to the replacement of new vehicle with designated vehicle emission standards pursuant to a scheme of Tax Incentives for Environment-friendly Commercial Vehicles.

Administrative and other operating expenses

Our administrative and other operating expenses amounted to approximately HK\$12.7 million and HK\$14.6 million for each of the two years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 15.0%. Such increase was primarily

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due to (i) the increase in our staff costs (including directors' emoluments) from approximately HK\$3.9 million in 2012 to approximately HK\$4.9 million in 2013 mainly as a result of salary raise; (ii) provision for impairment on trade receivables and retention receivables of approximately HK\$0.7 million recognised in 2013 as compared to nil in 2012, which is further discussed in the section "Financial information – Net current assets – Trade and other receivables" in this prospectus; and (iii) the increase in our other expenses (which mainly include expenses incurred for advertising, consultation, legal advisory services, staff welfare and other utilities) from approximately HK\$1.3 million in 2012 to approximately HK\$1.7 million in 2013 due to our business growth in 2013.

Finance costs

For each of the two years ended 31 December 2012 and 2013, our finance costs amounted to approximately HK\$0.35 million and HK\$0.38 million respectively, representing an increase of approximately 7.9%. Such increase was mainly due to the increase in our interest expense on finance leases from approximately HK\$0.26 million in 2012 to approximately HK\$0.30 million in 2013 as a result of our addition of machinery and motor vehicles purchased in 2012 and 2013 in view of our business growth.

Income tax

For each of the two years ended 31 December 2012 and 2013, our income tax expenses amounted to approximately HK\$0.1 million and HK\$2.7 million respectively, representing an increase of approximately 2,155.0%. In addition, our effective tax rates increased from approximately 4.8% in 2012 to approximately 21.6% in 2013. Such substantial increase was primarily due to the combined effect of:

- (i) substantial increase in our profit before income tax from approximately HK\$2.5 million in 2012 to approximately HK\$12.5 million in 2013, representing an increase of approximately 403.7%, mainly due to our increases in revenue and gross profit margin as discussed above;
- (ii) the utilisation of previously unrecognised tax losses of approximately HK\$1.0 million in 2012; and
- (iii) the recognition of deferred tax liabilities not previously recognised in prior years of approximately HK\$0.6 million in 2013 as compared to nil in 2012.

Profit for the year

As a result of the aforesaid and in particular our increase in revenue and gross profit margin as discussed above, our profit and total comprehensive income for the year attributable to owners of our Company increased from approximately HK\$2.4 million in 2012 to approximately HK\$9.8 million in 2013, representing an increase of approximately 314.9%.

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Three months ended 31 March 2013 compared to three months ended 31 March 2014

Revenue

Our revenue increased from approximately HK\$14.8 million for the three months ended 31 March 2013 to approximately HK\$20.8 million for the three months ended 31 March 2014, representing an increase of approximately 40.9%. Such increase was mainly due to the increase in concrete demolition services provided by our Group as a result of the overall development in the construction industry in Hong Kong. In particular, our Directors consider that the continued increase in major infrastructure and construction projects in Hong Kong had led to a general increase in the demand for concrete demolition services, resulting in more business opportunities being presented to and secured by our Group and thus the increase in our revenue for the three months ended 31 March 2014 as compared to the same period in 2013.

Cost of sales

Our cost of sales increased from approximately HK\$8.0 million for the three months ended 31 March 2013 to approximately HK\$11.3 million for the three months ended 31 March 2014, representing an increase of approximately 41.8%. Such increase was mainly attributable to the increases in our subcontracting charges, cost of raw materials and consumables, staff costs, repair and maintenance cost, depreciation and transportation expenses.

Our subcontracting charges increased from approximately HK\$2.9 million for the three months ended 31 March 2013 to approximately HK\$4.1 million for the three months ended 31 March 2014, representing an increase of approximately 41.2%. Such increase was primarily due to the increase in amount of works outsourced to subcontractors as a result of our growth in business in the period as illustrated by the increase in our revenue as discussed above.

Cost of raw materials and consumables increased from approximately HK\$1.2 million for the three months ended 31 March 2013 to approximately HK\$2.0 million for the three months ended 31 March 2014, representing an increase of approximately 64.9%. Such increase was mainly due to the increase in the purchase of saw blades, wires and other raw materials and consumables required in performing our concrete demolition works as a result of our growth in business during the period as well as the increase in materials prices.

Staff costs increased from approximately HK\$2.7 million for the three months ended 31 March 2013 to approximately HK\$3.1 million for the three months ended 31 March 2014, representing an increase of approximately 15.7%. The increase was mainly due to the increase in wages and bonuses.

Repair and maintenance cost increased from approximately HK\$59,000 for the three months ended 31 March 2013 to approximately HK\$479,000 for the three months ended 31 March 2014, representing an increase of approximately 711.9%. The increase was mainly due to more repair works done in 2014 resulting in the increase in purchases of machinery parts and components.

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Depreciation of owned assets and assets under finance lease increased from approximately HK\$0.9 million for the three months ended 31 March 2013 to approximately HK\$1.2 million for the three months ended 31 March 2014, representing an increase of approximately 35.8%. Such increase was mainly due to the additions of machinery to cope with our business growth.

Transportation expenses increased from approximately HK\$0.2 million for the three months ended 31 March 2013 to approximately HK\$0.4 million for the three months ended 31 March 2014, representing an increase of approximately 123.2%. Such increase was mainly due to the increase in works resulting in concrete and other unwanted materials required to be transported away from work sites to landfills during the period.

Gross profit and gross profit margin

Our gross profit amounted to approximately HK\$6.8 million and HK\$9.5 million for the three months ended 31 March 2013 and 2014 respectively, representing an increase of approximately 39.8%, mainly due to the increase in our revenue as discussed above.

Our gross profit margin was approximately 45.8% for the three months ended 31 March 2013 and approximately 45.5% for the three months ended 31 March 2014, which remained relatively stable as our increase in cost of sales was generally in line with our increase in revenue and our number of remote controlled demolition robots remained at 8 units during the period. Our gross profit margin for the first quarter of the year was higher than our overall gross profit margin of approximately 36.8% for the year ended 31 December 2013 because we generally engage relatively fewer subcontractors and rely relatively more on our own labour resources in the first quarter of the year. During the Chinese New Year holidays, subcontractors may not be available for service and we therefore recorded higher gross profit margin in the first quarter of the year due to reduced subcontracting charges.

Other income and net gain

Our other income and net gains amounted to approximately HK\$69,000 and HK\$3,000 for the three months ended 31 March 2013 and 2014 respectively, representing a decrease of approximately 95.7%, which was primarily because (i) we did not recognise any gain on disposal of property, plant and equipment in the three months ended 31 March 2014 as we did not dispose of motor vehicles and machines during the period; and (ii) we obtained government grants in relation to the replacement of new vehicle with designated emission standards in the three months ended 31 March 2013 but not in the three months ended 31 March 2014 as we did not make vehicle replacement during the period.

Administrative and other operating expenses

Our administrative and other operating expenses amounted to approximately HK\$3.6 million and HK\$5.7 million for the three months ended 31 March 2013 and 2014 respectively, representing an increase of approximately 58.1%. Such increase was primarily due to the listing expenses of approximately HK\$2.2 million recognised during the three months ended 31 March 2014.

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Finance costs

For the three months ended 31 March 2013 and 2014, our finance costs amounted to approximately HK\$104,000 and HK\$102,000 respectively, representing a decrease of approximately 1.9%. Such decrease was mainly due to the combined effect of (i) the reduction in our interest expense on finance leases from approximately HK\$92,000 for the three months ended 31 March 2013 to approximately HK\$54,000 for the three months ended 31 March 2014 mainly because of the maturity of certain finance lease facilities; and (ii) the increase in interest on bank borrowings from approximately HK\$12,000 for the three months ended 31 March 2013 to approximately HK\$48,000 for the three months ended 31 March 2014 mainly because of drawdown of bank loans in late 2013 for our general working capital purposes.

Income tax

For the three months ended 31 March 2013 and 2014, our income tax expenses amounted to approximately HK\$1.2 million and HK\$1.0 million respectively, representing a decrease of approximately 13.1%. In addition, our effective tax rates decreased from approximately 36.6% for the three months ended 31 March 2013 to approximately 27.1% for the three months ended 31 March 2014. Such decrease was primarily due to the combined effect of:

- (i) the recognition of deferred tax liabilities not previously recognised in prior years of approximately HK\$0.6 million in the three months ended 31 March 2013 but nil in the three months ended 31 March 2014; and
- (ii) the listing expenses of approximately HK\$2.2 million incurred in the three months ended 31 March 2014 but nil in the three months ended 31 March 2013 which were not deductible for tax purposes.

Profit for the period

As a result of the aforesaid and in particular our increase in revenue as discussed above, our profit and total comprehensive income for the period attributable to owners of our Company increased from approximately HK\$2.0 million for the three months ended 31 March 2013 to approximately HK\$2.7 million for the three months ended 31 March 2014, representing an increase of approximately 34.9%.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have historically been our cash generated from operations, equity contribution from shareholders as well as borrowings. Our primary liquidity requirements are to finance our working capital, fund the payment of interest and principal due on our indebtedness 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 proceeds from the Placing to finance a portion of our liquidity requirements.

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As at 30 June 2014, we had committed banking facilities (including the finance lease facilities) of approximately HK\$28.3 million which bore interest at 3.25% to 6.25% per annum and our undrawn banking facilities amounted to approximately HK\$11.0 million, and we had cash and cash equivalents of approximately HK\$3.7 million.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended		Three months	Three months
	31 December		ended 31	ended 31
	2012	2013	March 2013	March 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Net cash generated from operating activities	8,090	6,035	1,328	1,085
Net cash used in investing activities	(2,502)	(4,812)	(625)	(1,208)
Net cash (used in)/generated from financing activities	(2,975)	(317)	(991)	2,003
Net increase/(decrease) in cash and cash equivalent	2,613	906	(288)	1,880
Cash and cash equivalent at the beginning of the year/period	865	3,478	3,478	4,384
Cash and cash equivalent at the end of the year/period	3,478	4,384	3,190	6,264

Cash flows from operating activities

Our operating cash inflow is primarily derived from our revenue from the provision of concrete demolition services, whereas our operating cash outflow mainly includes payment for subcontracting charges, staff costs, purchase of raw materials and consumables, as well as other working capital needs. Net cash generated from or used in operating activities primarily consisted of profit before tax adjusted for depreciation, gain on disposal of property, plant and equipment, provision for impairment on trade receivables, provision for impairment on retention receivables, interest expenses, and the effect of changes in working capital such as increase or decrease in inventories, trade and other receivables, trade and other payables, amount due to a shareholder and balances with related companies.

Cash flows from operating activities can be significantly affected by factors such as the timing of collection of trade receivables from customers and the timing of payment of trade and other payables to suppliers and subcontractors during our ordinary course of business, which was also the primary reason for the difference in the net cash generated from operating activities among the years/periods during the Track Record Period.

For the year ended 31 December 2012, our net cash generated from operating activities was approximately HK\$8.1 million, which was mainly attributable to our profit before tax of approximately HK\$2.5 million, positively adjusted for (i) depreciation of approximately

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HK\$4.9 million; (ii) decrease in inventories of approximately HK\$0.2 million which was mainly because the amount of materials used exceeded the amount that purchased; (iii) increase in amount due to a shareholder of approximately HK\$0.9 million; and (iv) decrease in balances with related companies of approximately HK\$0.7 million; which were partially offset by (i) increase in trade and other receivables of approximately HK\$0.3 million; and (ii) decrease in trade and other payables of approximately HK\$1.2 million.

For the year ended 31 December 2013, our net cash generated from operating activities was approximately HK\$6.0 million, which was mainly attributable to our profit before tax of approximately HK\$12.5 million, positively adjusted for (i) depreciation of approximately HK\$5.7 million; and (ii) increase in trade and other payables of approximately HK\$2.8 million; which were partially offset by (i) increase in trade and other receivables of approximately HK\$11.7 million; (ii) increase in inventories of approximately HK\$0.2 million which was mainly because the amount of materials purchased exceeded the amount used; (iii) increase in balances with related companies of approximately HK\$0.4 million; and (iv) decrease in amount due to a shareholder of approximately HK\$3.3 million.

For the three months ended 31 March 2013, our net cash generated from operating activities was approximately HK\$1.3 million, which was mainly attributable to our profit before tax of approximately HK\$3.1 million, positively adjusted for (i) depreciation of approximately HK\$1.2 million; and (ii) decrease in inventories of approximately HK\$0.6 million which was mainly because the amount of materials used exceeded the amount purchased; which were offset by (i) decrease in trade and other payables of approximately HK\$2.5 million; and (ii) increase in trade and other receivables of approximately HK\$1.1 million.

For the three months ended 31 March 2014, our net cash generated from operating activities was approximately HK\$1.1 million, which was mainly attributable to our profit before tax of approximately HK\$3.7 million, positively adjusted for (i) depreciation of approximately HK\$1.4 million; and (ii) decrease in inventories of approximately HK\$0.7 million which was mainly because the amount of materials used exceeded the amount purchased; which were offset by (i) decrease in trade and other payables of approximately HK\$2.9 million; (ii) increase in balances with related companies of approximately HK\$0.8 million which mainly include the listing expenses due from the Selling Shareholder as at 31 March 2014; and (iii) increase in trade and other receivables of approximately HK\$0.6 million.

Cash flows from investing activities

Our cash inflow from investing activities primarily includes cash generated from disposal of plant and equipment, whereas our cash outflow from investing activities primarily include cash used in the purchase of plant and equipment.

For the year ended 31 December 2012, we recorded net cash used in investing activities of approximately HK\$2.5 million, which was primarily attributable to cash used in our purchase of machinery, equipment, tools, motor vehicles and other fixed assets of approximately HK\$2.5 million, slightly offset by cash generated from our disposal of plant and equipment of approximately HK\$23,000.

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For the year ended 31 December 2013, we recorded net cash used in investing activities of approximately HK\$4.8 million, which was primarily attributable to cash used in our purchase of machinery, equipment, tools, motor vehicles and other fixed assets of approximately HK\$4.9 million, slightly offset by cash generated from our disposal of plant and equipment of approximately HK\$88,000.

For the three months ended 31 March 2013, we recorded net cash used in investing activities of approximately HK\$0.6 million, which was primarily attributable to cash used in our purchase of machinery, equipment, tools and other fixed assets of approximately HK\$0.6 million, slightly offset by cash generated from our disposal of plant and equipment of approximately HK\$22,000.

For the three months ended 31 March 2014, we recorded net cash used in investing activities of approximately HK\$1.2 million, which was primarily attributable to cash used in our purchase of machinery, equipment, tools and other fixed assets of approximately HK\$0.8 million and deposits paid for the purchases of fixed assets of approximately HK\$0.4 million.

Cash flows from financing activities

Our cash inflow from financing activities primarily includes proceeds from bank borrowings and finance leases. Our cash outflow from financing activities primarily includes repayment of bank borrowings and finance leases, payment of interest expenses and payment of dividends.

For the year ended 31 December 2012, we recorded net cash used in financing activities of approximately HK\$3.0 million, which was mainly attributable to repayment of bank borrowings of approximately HK\$2.5 million, repayment of finance leases of approximately HK\$2.2 million, interest paid on finance leases of approximately HK\$0.3 million and interest paid on bank borrowings of approximately HK\$0.1 million, partially offset by drawdown of bank borrowings of approximately HK\$2.0 million.

For the year ended 31 December 2013, we recorded net cash used in financing activities of approximately HK\$0.3 million, which was mainly attributable to cash used in the payment of dividends of approximately HK\$1.5 million declared in 2012, repayment of bank borrowings of approximately HK\$2.6 million, repayment of finance leases of approximately HK\$2.8 million, interest paid on finance leases of approximately HK\$0.3 million and interest paid on bank borrowings of approximately HK\$0.1 million, partially offset by drawdown of bank borrowings of approximately HK\$7.0 million.

For the three months ended 31 March 2013, we recorded net cash used in financing activities of approximately HK\$1.0 million, which was primarily attributable to repayment of finance leases of approximately HK\$0.8 million, repayment of bank borrowings of approximately HK\$0.1 million, interest paid on finance leases of approximately HK\$92,000, and interest paid on bank borrowings of approximately HK\$12,000.

For the three months ended 31 March 2014, we recorded net cash generated from financing activities of approximately HK\$2.0 million, which was primarily attributable to the increase in loan from a shareholder of approximately HK\$5.0 million, partially offset by the

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use of cash in repayment of bank borrowings of approximately HK\$2.3 million, repayment of finance leases of approximately HK\$0.6 million, interest paid on finance leases of approximately HK\$54,000, and interest paid on bank borrowings of approximately HK\$48,000.

CAPITAL EXPENDITURES

For the two years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, our Group incurred capital expenditures of approximately HK\$8.2 million, HK\$5.3 million and HK\$0.8 million respectively, as set out below:

	Year ended 31		Three months
	December		ended 31
	2012	2013	March 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Plant and machinery	6,984	4,866	816
Furniture and fixtures	–	–	5
Motor vehicles	1,192	458	–
Decoration	22	–	–
	<u>8,198</u>	<u>5,324</u>	<u>821</u>

Our Group's capital expenditures primarily consisted of purchases of concrete demolition machinery and equipment and motor vehicles. Proper investment in concrete demolition machinery is critical to our core business and operation as it has a direct impact on our productivity, efficiency, responsiveness and service quality. Our Directors are of the view that additional capital expenditures will incur as our Group continues to expand. Our Group plans to finance future capital expenditures primarily through the net proceeds of the Placing, bank borrowings as well as from cash flows generated from operations.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the internal resources and the unutilised banking facilities presently available to our Group, and the estimated net proceeds of the Placing, we have sufficient working capital for our present requirements for at least the next 12 months commencing on the date of this prospectus.

NET CURRENT ASSETS

The following table sets forth the breakdown of our Group's current assets and liabilities as at the dates indicated:

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	As at 31 December		As at 31 March	As at 30 June
	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Current Assets				
Inventories	1,356	1,592	898	824
Trade and other receivables	14,405	25,400	26,422	32,213
Amounts due from related companies	194	372	1,150	2,484
Cash and cash equivalents	<u>3,478</u>	<u>4,384</u>	<u>6,264</u>	<u>3,737</u>
 Total current assets	 <u>19,433</u>	 <u>31,748</u>	 <u>34,734</u>	 <u>39,258</u>
Current Liabilities				
Trade and other payables	8,681	9,992	7,135	8,916
Amount due to a shareholder	6,611	3,348	5,000	–
Amount due to a related company	259	–	–	–
Borrowings	4,059	8,144	5,848	8,603
Tax payable	<u>120</u>	<u>1,647</u>	<u>2,498</u>	<u>3,736</u>
 Total current liabilities	 <u>19,730</u>	 <u>23,131</u>	 <u>20,481</u>	 <u>21,255</u>
 Net current (liabilities)/asset	 <u>(297)</u>	 <u>8,617</u>	 <u>14,253</u>	 <u>18,003</u>

As at 31 December 2012, we had net current liabilities of approximately HK\$0.3 million. The key components of our current assets as at 31 December 2012 included trade and other receivables of approximately HK\$14.4 million, cash and cash equivalents of approximately HK\$3.5 million, inventories of approximately HK\$1.4 million, and an amount due from related parties of approximately HK\$0.2 million. The key components of our current liabilities included trade and other payables of approximately HK\$8.7 million, an amount due to a shareholder of approximately HK\$6.6 million, borrowings (including bank borrowings and finance lease liabilities) of approximately HK\$4.1 million, an amount due to a related company of approximately HK\$0.3 million, and tax payable of approximately HK\$0.1 million.

The net current liabilities position as at 31 December 2012 was primarily attributable to the amount due to a shareholder of approximately HK\$6.6 million, which was unsecured, non-interest bearing and repayable on demand, as well as the use of short-term borrowings to partly finance our capital expenditures for the purchases of plant and machinery and motor vehicles.

As at 31 December 2013, we ceased to be in a net current liabilities position as we recorded net current assets of approximately HK\$8.6 million. Such improvement in our net current assets position was primarily attributable to (i) our business growth in 2013 as

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compared to 2012 resulting in the significant increase in our current assets, including the increase in our cash and cash equivalents from approximately HK\$3.5 million as at 31 December 2012 to approximately HK\$4.4 million as at 31 December 2013, and the increase in our trade and other receivables from approximately HK\$14.4 million as at 31 December 2012 to approximately HK\$25.4 million as at 31 December 2013; and (ii) the decrease in our amount due to a shareholder from approximately HK\$6.6 million as at 31 December 2012 to approximately HK\$3.3 million as at 31 December 2013 due to partial settlement. These were partly offset by (i) an increase in borrowings (including bank borrowings and finance lease liabilities) from approximately HK\$4.1 million as at 31 December 2012 to approximately HK\$8.1 million as at 31 December 2013 to finance our capital expenditures and growth in business operations; (ii) increase in trade and other payables from approximately HK\$8.7 million as at 31 December 2012 to approximately HK\$10.0 million as at 31 December 2013 which is generally in line with our business growth in 2013; and (iii) the increase in tax payable from approximately HK\$0.1 million as at 31 December 2012 to approximately HK\$1.6 million as at 31 December 2013 primarily due to the increase in our income tax expense as explained in the section “Financial information – Period-to-period comparison of results of operations” in this prospectus.

As at 31 March 2014, we recorded net current assets of approximately HK\$14.3 million. The improvement was mainly due to (i) the partial repayment of borrowings of approximately HK\$2.3 million; (ii) the decrease in trade and other payables from approximately HK\$10.0 million as at 31 December 2013 to approximately HK\$7.1 million as at 31 March 2014 due to settlement to our subcontracts and suppliers; and (iii) the increase in our trade and other receivables and cash and cash equivalents notwithstanding the use of cash to repay borrowings as a result of our business growth during the period.

As at 30 June 2014, being the latest practicable date for ascertaining our current assets position, we recorded net current assets of approximately HK\$18.0 million. Such further improvement in our net current assets position was mainly due to the increase in our current assets from approximately HK\$34.7 million as at 31 March 2014 to approximately HK\$39.3 million as at 30 June 2014, which in turn was primarily due to (i) the increase in our trade and other receivables from approximately HK\$26.4 million as at 31 March 2014 to approximately HK\$32.2 million as at 30 June 2014 as a result of our continued business growth leading to an increase in our trade receivables, as well as the prepayment of listing expenses to be accounted for as a deduction from equity upon Listing, leading to an increase in our other receivables and prepayments; and (ii) the increase in amounts due from related companies mainly due to the amount of listing expenses due from the Selling Shareholder (i.e. Power Key).

Trade and other receivables

Our trade and other receivables as at 31 December 2012 and 2013 and 31 March 2014 were approximately HK\$14.4 million, HK\$25.4 million and HK\$26.4 million respectively, details of which are set out below:

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	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Trade receivables	12,234	22,501	22,227
Less: allowance for impairment of trade receivables	–	(85)	(85)
Trade receivables, net	12,234	22,416	22,142
Retention receivables	2,124	3,491	3,491
Less: allowance for impairment of retention receivables	–	(581)	(581)
Retention receivables, net	2,124	2,910	2,910
Other receivables, deposits and prepayments	47	74	1,370
	14,405	25,400	26,422

Our trade and other receivables increased from approximately HK\$14.4 million as at 31 December 2012 to approximately HK\$25.4 million as at 31 December 2013, representing an increase of approximately 76.3%. Such increase was primarily due to (i) our business growth in 2013 as evidenced by increase in revenue in 2013 as compared to that in 2012, leading to an increase in our trade receivables and retention receivables; and (ii) increase in customers' overdue payments, which is discussed further below. Our trade and other receivables further increased to approximately HK\$26.4 million as at 31 March 2014. Such increase was mainly due to the increase in other receivables, deposits and prepayments from approximately HK\$74,000 as at 31 December 2013 to approximately HK\$1.4 million as at 31 March 2014 primarily as a result of the prepayment of listing expenses to be accounted for as a deduction from equity upon Listing.

Our trade and other receivables mainly comprise trade receivables and retention receivables. Trade receivables represent receivables from our customers arising from our provision of concrete demolition services. Retention receivables represent retention money withheld by some of our customers, usually those who are main contractors of sizeable construction projects, usually at the rate of 5% of the fees payable to us. For normal trade receivables, a credit period of 15 days is expressly stated on the invoices issued by us to our customers. Retention receivables are released by our customers in accordance with the respective agreements with customers, which is normally one year after completion of our concrete demolition jobs or the entire construction project undertaken by our customers.

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Trade receivables

We determine the provision for impairment of trade receivables on a case-by-case basis having regard to a number of factors, including the ageing of the receivable balance, results of follow-up procedures, customers' credit history, customers' financial position, and the current market condition. At the end of each reporting period, we assess whether there is objective evidence that each individual trade receivable is impaired. An individual trade receivable is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the trade receivable and that such event (or events) has an impact on the estimated recoverable amount of the trade receivable that can be reliably estimated. Evidence of impairment may include, having taken into account the aforementioned factors, indications that the customer is experiencing deterioration in financial condition, default in payments, and where observable data indicate that there is a measurable decrease in the estimated recoverable amount of the trade receivables such as changes in current market conditions that correlate with defaults. The amount of the provision for impairment of trade receivables is recognised in profit or loss and is measured as the difference between the carrying amount of the trade receivables and the present value of estimated recoverable amount of the trade receivables.

As at 31 December 2012 and 2013 and 31 March 2014, trade receivables of approximately nil, HK\$85,000 and HK\$85,000 were impaired and provision for impairment loss was recognised accordingly. The ageing of these receivables is more than 365 days. We assessed that such balances were unlikely to be recovered, as we experienced unexpected difficulties during the collection process due to the apparent difficult economic situations of the customers and thus provision for impairment loss was recognised.

Trade receivables are past due when our customers fail to make payment when due. A credit period of 15 days is expressly stated on the invoices issued by us to our customers. The following table sets out our trade receivables turnover days during the Track Record Period:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014
Trade receivables turnover days (note)	<u>80.6 days</u>	<u>85.0 days</u>	<u>96.5 days</u>

Note:

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (net of impairment and excluding retention receivables) divided by revenue during the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

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For reference, the trade receivables turnover days for our top 10 customers during the Track Record Period were as follows:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014
Trade receivables turnover days for our top 10 customers (note)	63.9 days	97.5 days	83.9 days

Note:

Trade receivables turnover days for our top 10 customers are calculated based on the aggregate ending balance of trade receivables (net of impairment and excluding retention receivables) due from the top 10 customers divided by revenue attributable to the top 10 customers during the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March). It should be noted, however, that based on such calculation method, the trade receivables turnover days figures for our top 10 customers may be shorter than, and therefore not reflective of, the actual average length of collection period in respect of such top 10 customers because some of the top 10 customers might have already settled most or all of the trade receivables prior to each reporting period-end date, resulting in a lowered trade receivables balance used in the calculation for such 10 specific customers and thereby leading to a lower trade receivables turnover days figure.

Trade receivables turnover days during the Track Record Period were significantly longer than the credit period of 15 days expressly stated on the invoices issued by us to our customers. Our Directors consider that it is normal industry practice for main contractors to take substantially longer than 15 days to settle payments to sub-contractors, which is consistent with the findings in the IPSOS Report. Our trade receivables turnover days increased from approximately 80.6 days in 2012 to approximately 85.0 days in 2013. Such increase was primarily due to (i) the increase in the number of main contractor customers of sizeable construction projects who normally required longer time to process payments to subcontractors; and (ii) the increase in the amount of customers' overdue payments (mainly due to the increase in our revenue as well as the increase in the number of main contractor customers of sizeable construction projects who normally required longer time to process payments) as further discussed below. Our trade receivables turnover days further increased to approximately 96.5 days as at 31 March 2014. Such increase was mainly due to the increase in the number of customers who were themselves subcontractors of sizeable construction projects and who therefore required longer time to receive payments from their own customers (i.e. the main contractor) before processing and making payments to their further subcontractors.

If we do not receive payment from customers within the credit period of 15 days stated on the invoices issued by us to our customers, we will monitor the overdue payments continuously and evaluate on a case-by-case basis as to the appropriate follow-up actions having regard to the customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. Follow-up actions to recover overdue trade receivables include but not limited to active communications with the customers' appropriate personnel (such as the relevant department responsible for processing payments) as well as written reminders, and, if material, initiating legal actions against the relevant customers.

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The ageing analysis of our trade receivables (net of impairment and excluding retention receivables) based on invoice date is as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
<i>Attributable to jobs in private sector projects</i>			
0 – 30 days	1,782	3,679	6,791
31 – 60 days	2,705	3,692	3,013
61 – 90 days	1,265	5,229	1,968
91 – 365 days	2,037	1,676	3,269
Over 365 days	704	736	492
	8,493	15,012	15,533
<i>Attributable to jobs in public sector projects</i>			
0 – 30 days	236	3,020	2,050
31 – 60 days	1,445	2,188	1,145
61 – 90 days	578	1,056	1,592
91 – 365 days	1,257	677	1,539
Over 365 days	225	463	283
	3,741	7,404	6,609
<i>Overall</i>			
0 – 30 days	2,018	6,699	8,841
31 – 60 days	4,150	5,880	4,158
61 – 90 days	1,843	6,285	3,560
91 – 365 days	3,294	2,353	4,808
Over 365 days	929	1,199	775
	12,234	22,416	22,142

As at 31 December 2012 and 2013 and 31 March 2014, trade receivables of approximately HK\$1,766,000, HK\$6,375,000 and HK\$8,010,000 respectively were not yet past due, representing approximately 14.4%, 28.4% and 36.2% of our trade receivables (net of impairment and excluding retention receivables) respectively.

As at 31 December 2012 and 2013 and 31 March 2014, trade receivables of approximately HK\$10,468,000, HK\$16,041,000 and HK\$14,132,000 were past due but not impaired, representing approximately 85.6%, 71.6% and 63.8% of our trade receivables (net of impairment and excluding retention receivables) respectively. These relate to trade receivables from a number of customers who have no history of default during the Track Record Period and so no provision has therefore been made. Such increase in our trade

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receivables balances that were past due but not impaired was primarily due to our revenue growth in 2013 and the three months ended 31 March 2014 resulting in our increased trade receivables.

Up to 30 June 2014, approximately 64.1% (or approximately HK\$14,202,000) of our trade receivables (net of impairment and excluding retention receivables) as at 31 March 2014 had been settled:

	Trade receivables as at 31 March 2014	Subsequent settlement up to 30 June 2014		Amount remained outstanding as at 30 June 2014	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
0-30 days	8,841	6,179	69.9%	2,662	30.1%
31-60 days	4,158	2,437	58.6%	1,721	41.4%
61-90 days	3,560	2,310	64.9%	1,250	35.1%
91-365 days	4,808	2,865	59.6%	1,943	40.4%
Over 365 days	775	411	53.0%	364	47.0%
Total	22,142	14,202	64.1%	7,940	35.9%

Out of the amount of approximately HK\$8.8 million that was aged between 0 and 30 days as of 31 March 2014, approximately HK\$6.2 million (or approximately 69.9%) was subsequently settled up to 30 June 2014. Out of the amount of approximately HK\$4.2 million that was aged between 31 and 60 days as of 31 March 2014, approximately HK\$2.4 million (or approximately 58.6%) was subsequently settled up to 30 June 2014. Out of the amount of approximately HK\$3.6 million that was aged between 61 and 90 days as of 31 March 2014, approximately HK\$2.3 million (or approximately 64.9%) was subsequently settled up to 30 June 2014.

Our Directors are of the view that the subsequent settlement rate for trade receivables aged between 0 and 90 days are in good standing and that the amount that remains outstanding are collectable.

Out of the amount of approximately HK\$4.8 million that was aged between 91 and 365 days as of 31 March 2014, approximately HK\$2.9 million (or approximately 59.6%) was subsequently settled up to 30 June 2014. Out of the amount of approximately HK\$0.8 million that was aged over 365 days as of 31 March 2014, approximately HK\$0.4 million (or approximately 53.0%) was subsequently settled up to 30 June 2014.

The outstanding balance in respect of these two age groups (i.e. 91-365 days and over 365 days) are due from a number of customers with whom we have long-standing relationships. Out of the total amount of approximately HK\$2.3 million falling within these two age groups that remained outstanding as at 30 June 2014, approximately 22.0% (or approximately HK\$0.5 million) were due from customers who were among our five largest

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customers in terms of revenue contribution during each of the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, and with whom our length of business relationships ranged from 1 to 19 year(s). Among these customers, those having relatively short relationship with us are joint venture companies that were recently formed where we had 15 to 19 years of relationship with at least one of the joint venture partners of each joint venture company. In view of such long-standing relationships as well as the past payment records and our collection experience with such customers, our Directors are of the view that such outstanding balance of trade receivables are collectable.

Retention receivables

We determine the provision for impairment of retention receivables on a case-by-case basis having regard to a number of factors, including the terms of release of retention money as agreed with customers, the ageing of the receivable balance, results of follow-up procedures, customers' credit history, customers' financial position, and the current market condition. As at 31 December 2012 and 2013 and 31 March 2014, retention receivables amounted to approximately nil, HK\$0.6 million and HK\$0.6 million were individually determined to be impaired, on which we experienced unexpected difficulties during the collection process from the customers. We assessed that the balances were unlikely to be recovered and provision for impairment loss was recognised.

Retention receivables net of impairment amounted to approximately HK\$2.1 million, HK\$2.9 million and HK\$2.9 as at 31 December 2012 and 2013 and 31 March 2014 respectively. Our Directors consider that such increase was generally consistent with our business growth during the Track Record Period.

Up to 30 June 2014, approximately HK\$161,000 of our retention receivables (net of impairment) as at 31 March 2014 had been subsequently settled. Retention money is usually withheld by customers for a prolonged period of time until normally one year after completion of our concrete demolition jobs or the entire construction project undertaken by our customer depending on the agreement with individual customers. In view of the nature of retention receivables, past payment records, and our collection experience with these customers, our Directors consider that the outstanding balance of retention receivables are collectable.

Trade and other payables

Our trade and other payables amounted to approximately HK\$8.7 million, HK\$10.0 million and HK\$7.1 million as at 31 December 2012 and 2013, 31 March 2014 respectively, a breakdown of which is as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Trade payables	5,139	5,767	3,735
Accruals and other payables	<u>3,542</u>	<u>4,225</u>	<u>3,400</u>
	<u><u>8,681</u></u>	<u><u>9,992</u></u>	<u><u>7,135</u></u>

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Our trade payables primarily consist of payables to (i) subcontractors; and (ii) suppliers of materials and consumables and miscellaneous services. Our accruals payables mainly consist of accruals for (i) staff salaries and allowances; (ii) utilities; and (iii) rental expenses for offices and warehouse.

Trade and other payables increased from approximately HK\$8.7 million as at 31 December 2012 to approximately HK\$10.0 million as at 31 December 2013, which were in line with the growth of our revenue resulting in the increase in purchases of materials and consumables and other miscellaneous services and the increase in subcontracting charges. As at 31 March 2014, trade and other payables decreased to approximately HK\$7.1 million, which was mainly because we engaged fewer subcontractors during the Chinese New Year period in 2014, resulting in less payables to subcontractors. In general, the payment terms granted by suppliers are generally 30 days from the date of the relevant invoices.

The following table sets out the aging analysis of the trade payables based on invoice date as at the end of each of the reporting dates:

	As at 31 December		As at 31
	2012	2013	March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	2,642	2,941	1,020
31-60 days	446	642	368
61-90 days	16	30	197
91-365 days	<u>2,035</u>	<u>2,154</u>	<u>2,150</u>
	<u><u>5,139</u></u>	<u><u>5,767</u></u>	<u><u>3,735</u></u>

Up to 30 June 2014, approximately 42.9% of our trade payables as at 31 March 2014 had been settled.

The following table sets out our trade payables turnover days during the Track Record Period:

	Year	Year	Three
	ended 31	ended 31	months
	December	December	ended 31
	2012	2013	March
			2014
Trade payables turnover days (<i>note</i>)	<u>31.6 days</u>	<u>42.3 days</u>	<u>37.7 days</u>

Note:

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of sales for the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

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Our trade payables turnover days were longer than the normal credit period of 30 days (from the date of the relevant invoices) during the Track Record Period. This was because of the time lag between our purchases (upon which trade payables are incurred) and the issue of invoices by our suppliers (upon which the credit period of 30 days starts).

Our trade payable turnover days increased from approximately 31.6 days in 2012 to approximately 42.3 days in 2013 and decreased to approximately 37.7 days for the three months ended 31 March 2014, which was primarily because we settled our trade payables within a comparatively shorter period of time in 2012 and in the three months ended 31 March 2014 as compared to the year 2013.

Inventories

Our inventories represent raw materials and consumables used in the provision of our concrete demolition services such as saw blades and cutting wires. The following table sets out a summary of our inventories balance as at the respective reporting dates:

	As at 31 December 2012	As at 31 December 2013	As at 31 March 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	1,356	1,592	898

Our inventories balance increased from approximately HK\$1.4 million as at 31 December 2012 to approximately HK\$1.6 million as at 31 December 2013, representing an increase of approximately 17.4%. Such increase was mainly attributable to our business growth in 2013 as compared to that in 2012 resulting in the need for more materials and consumables for use in our concrete demolition works. As at 31 March 2014, our inventories balance decreased to approximately HK\$0.9 million, which was mainly due to our utilisation of materials and consumables in our concrete demolition jobs at a faster rate than our purchase of materials and consumables.

During the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, the cost of inventories recognised as expense and included in our cost of sales amounted to approximately HK\$7.2 million, HK\$8.2 million and HK\$2.0 million respectively.

The table below sets out our inventories turnover days during the Track Record Period:

	Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2014
Inventories turnover days (<i>note</i>)	9.4 days	7.2 days	5.4 days

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Note:

Inventories turnover days is calculated based on the average of the beginning and ending balance of inventories divided by revenue for the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

Inventories turnover days decreased from approximately 9.4 days in 2012 to 7.2 days in 2013 and further to 5.4 days for the three months ended 31 March 2014, which was mainly attributable to the use of materials and consumables at a faster rate in 2013 and the three months ended 31 March 2014 as a result of our business growth and increase in the value of our concrete demolition jobs which require the use of more materials and consumables.

Construction-in-progress

There was no construction-in-progress on our balance sheet as at each reporting date.

We undertake jobs of considerably different scales, ranging from a core drilling job (i.e. the making of circular cuts in a concrete structure) which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete. Revenue from provision of concrete demolition services is recognised based on the stage of completion of the jobs as reviewed and approved by our customers.

In view of the operating cycle of our jobs which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites which can take several months to complete, no direct costs (mainly comprising direct labour costs) were required to be capitalised as construction-in-progress in the combined statements of financial position of our Group as at 31 December 2012 and 2013 and 31 March 2014, because substantially all of the direct labour costs incurred by our Group had already been invoiced to customers as reviewed and approved by the customers. Our Group did not recognise construction-in-progress as at 31 December 2012 and 2013 and 31 March 2014 because (i) substantially all of the direct labour costs incurred by our Group had already been invoiced to customers as reviewed and approved by the customers; and (ii) for those jobs that were yet to be completed as at the end of each of the reporting period and the amounts of work done that had not been invoiced to customers, we have assessed the amounts of direct labour costs that were required to be capitalised as construction-in-progress based on the job sheets and consider that the amounts of which as at 31 December 2012 and 2013 and 31 March 2014 were insignificant to our Group. Accordingly, the direct labour costs were accounted for as an expense in the period incurred and included in cost of sales in the combined statements of profit or loss of our Group for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014.

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INDEBTEDNESS

The following table sets forth our Group's interest-bearing borrowings and amounts due to a shareholder and a related company as at the dates indicated:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	As at 30 June 2014 <i>HK\$'000</i> (unaudited)
Current:				
Borrowings				
– Bank borrowings	1,374	5,754	3,492	6,227
– Finance lease liabilities	2,685	2,390	2,356	2,376
Amount due to a shareholder	6,611	3,348	5,000	–
Amount due to a related company	259	–	–	–
	10,929	11,492	10,848	8,603
Non-current:				
Borrowings				
– Finance lease liabilities	5,122	3,025	2,426	1,827
	16,051	14,517	13,274	10,430

Bank borrowings and finance lease liabilities

As at 31 December 2012 and 2013, 31 March 2014 and 30 June 2014 we had bank borrowings of approximately HK\$1.4 million, HK\$5.8 million, HK\$3.5 million and HK\$6.2 million respectively which were all denominated in HK\$. Our bank borrowings will mature in 2018 and bear interest at 3.25% to 4.75% per annum.

As at 31 December 2012 and 2013 and 31 March 2014, bank borrowings amounting to HK\$nil, HK\$2,862,000 and HK\$2,723,000 respectively were drawn under the SME Financing Guarantee Scheme (the “Scheme”) launched by The Hong Kong Mortgage Corporation Limited. After the Listing, our Group will however not be eligible to apply for the Scheme, which is not available to listed companies. The bank reserves the right to cancel the banking facilities and demand for full repayment without further notice. We intend to repay such bank borrowings by using the net proceeds to be received by us from the Placing (see the section “Future plans and use of proceeds – Use of proceeds” in this prospectus for further information).

Bank borrowings are classified as current liabilities according to the HK Interpretation-5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA. According to the repayment schedules the bank borrowings are repayable as follows:

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	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	As at 30 June 2014 <i>HK\$'000</i> (unaudited)
Within a period not exceeding one year	482	3,063	1,072	4,114
Within a period of more than one year but not exceeding two years	499	977	854	698
Within a period of more than two years but not exceeding five years	<u>393</u>	<u>1,714</u>	<u>1,566</u>	<u>1,415</u>
	<u>1,374</u>	<u>5,754</u>	<u>3,492</u>	<u>6,227</u>

During the Track Record Period, we acquired certain machines by way of finance leases, under which our banks purchased certain machines from machinery providers and leased back those machines to our Group at stipulated monthly rents in fixed terms. Under these finance leases, we were given options to purchase these machines at a nominal amount at the end of the lease term.

As at 31 December 2012 and 2013, 31 March 2014 and 30 June 2014, our total finance lease liabilities (including current and non-current) were approximately HK\$7.8 million, HK\$5.4 million, HK\$4.8 million and HK\$4.2 million respectively. The carrying amount of all finance lease liabilities are denominated in HK\$.

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	As at 30 June 2014 <i>HK\$'000</i> (unaudited)
Gross finance lease liabilities – minimum lease payments				
Within a period not exceeding one year	2,966	2,570	2,512	2,512
Within a period of more than one year but not exceeding two years	2,456	2,243	1,975	1,709
Within a period of more than two years but not exceeding five years	<u>2,934</u>	<u>882</u>	<u>522</u>	<u>160</u>
	8,356	5,695	5,009	4,381
Future finance charges on finance leases	<u>(549)</u>	<u>(280)</u>	<u>(227)</u>	<u>(178)</u>
Present value of finance lease liabilities	<u>7,807</u>	<u>5,415</u>	<u>4,782</u>	<u>4,203</u>

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The present value of finance lease liabilities is as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000	As at 30 June 2014 HK\$'000 (unaudited)
Within a period not exceeding one year	2,685	2,390	2,356	2,376
Within a period of more than one year but not exceeding two years	2,285	2,157	1,911	1,670
Within a period of more than two years but not exceeding five years	<u>2,837</u>	<u>868</u>	<u>515</u>	<u>157</u>
	<u><u>7,807</u></u>	<u><u>5,415</u></u>	<u><u>4,782</u></u>	<u><u>4,203</u></u>

As at 31 December 2012, we had committed banking facilities (including the finance lease facilities) of approximately HK\$23,347,000 which bore interest at 2.25% to 6.75% per annum. As at 31 December 2013, we had committed banking facilities (including the finance lease facilities) of approximately HK\$28,971,000 which bore interest at 2.25% to 6.25% per annum.

As at 31 December 2012 and 2013, our undrawn banking facilities amounted to approximately HK\$10,500,000 and HK\$12,000,000 respectively.

As at 31 March 2014, we had committed banking facilities (including the finance lease facilities) of approximately HK\$28,311,000 which bore interest at 3.25% to 6.25% per annum and our undrawn banking facilities amounted to approximately HK\$14,000,000.

As at 30 June 2014, we had committed banking facilities (including the finance lease facilities) of approximately HK\$28.3 million which bore interest at 3.25% to 6.25% per annum and our undrawn banking facilities amounted to approximately HK\$11.0 million.

Our banking facilities are secured by (i) our plant and machinery with an aggregate net book value of approximately HK\$6,042,000, HK\$3,748,000 and HK\$3,175,000 as at 31 December 2012 and 2013 and 31 March 2014 respectively; (ii) our motor vehicles with an aggregate net book value of approximately HK\$1,771,000, HK\$1,147,000 and HK\$844,000 as at 31 December 2012 and 2013 and 31 March 2014 respectively; (iii) personal guarantees given by Mr. Pei as at 31 December 2012 and 2013 and 31 March 2014; (iv) corporate guarantee provided by Grandwin, a related company of our Group, as at 31 December 2012 and 2013 and 31 March 2014; (v) guarantee by The Hong Kong Mortgage Corporation Limited under the Scheme as at 31 December 2013 and 31 March 2014; and (vi) guarantee by the Government under the Special Loan Guarantee Scheme as at 31 December 2012 and 2013 and 31 March 2014.

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Personal guarantees provided by Mr. Pei and corporate guarantees provided by Grandwin will be replaced by our Group's corporate guarantee upon Listing.

Amount due to a shareholder and a related company

Amount due to a shareholder and a related company are unsecured, non-interest bearing and repayable on demand and are denominated in HK dollars. Such amounts represented advances from Mr. Pei and Grandwin for financing the daily operation of our Group and will be repaid by our Group prior to Listing.

Commitments

Our commitments relate to (a) capital commitments in relation to our purchases of fixed assets contracted but not provided for; and (b) future minimum lease payments under non-cancellable operating leases.

(a) Capital commitments

Capital commitments outstanding at each statement of financial position date not provided for were as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	As at 30 June 2014 <i>HK\$'000</i> (unaudited)
Contracted but not provided for:				
Property, plant and equipment	–	–	3,598	–

(b) Operating lease commitments – Group as lessee

At each statement of financial position date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>	As at 30 June 2014 <i>HK\$'000</i> (unaudited)
Not later than 1 year	124	–	–	612
1 – 5 years	–	–	–	246
	124	–	–	858

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As at 30 June 2014, our Group was the lessee in respect of two properties under operating leases. The leases run for an initial period of 1 to 2 years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

Contingent liabilities

We had no significant contingent liabilities as at 31 December 2012 and 2013, 31 March 2014 and 30 June 2014.

Disclaimer

Our Directors confirm that (i) our Group has not experienced any difficulty in obtaining bank borrowing or any default in payment on bank borrowings or any breach of finance covenants during the Track Record Period and up to the Latest Practicable Date; (ii) there has not been any material change in our indebtedness and contingent liabilities since 30 June 2014 and up to the Latest Practicable Date; (iii) our Directors are not aware of any material defaults in payment of our trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iv) the bank loans, finance lease and bank facility is subject to standard banking conditions; and (v) our Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of our Group's bank borrowings and facilities are subject to the fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Save as disclosed in section "Financial information – Indebtedness" in this prospectus, we did not have, at the close of business on 30 June 2014, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements or commitments.

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KEY FINANCIAL RATIOS

	As at/for the year ended 31 December		As at/for the three months ended 31
	2012	2013	March 2014
Revenue growth	N/A	30.8%	40.9%
Net profit growth	N/A	314.9%	34.9%
Gross profit margin	27.2%	36.8%	45.5%
Net profit margin before interest and tax	5.0%	17.4%	18.2%
Net profit margin	4.2%	13.2%	12.9%
Return on equity	44.7%	65.0%	13.0%
Return on assets	7.9%	23.4%	6.0%
Current ratio	1.0	1.4	1.7
Quick ratio	0.9	1.3	1.7
Inventories turnover days	9.4	7.2	5.4
Trade receivables turnover days	80.6	85.0	96.5
Trade payables turnover days	31.6	42.3	37.7
Gearing ratio	3.0	1.0	0.6
Net debt to equity ratio	2.4	0.7	0.4
Interest coverage	8.1	33.9	37.2

Revenue growth

Our revenue increased by approximately 30.8% in 2013 as compared to 2012, which was primarily due to the increase in the general demand for concrete demolition services in Hong Kong and our increasing use of remote controlled demolition robots. Our revenue increased by approximately 40.9% for the three months ended 31 March 2014 as compared to the three months ended 31 March 2013, which was primarily due to the continued increase in the general demand for concrete demolition services in Hong Kong.

Please refer to the section “Financial information – Period-to-period comparison of results of operation” in this prospectus for a further discussion of our revenue growth during the Track Record Period.

Net profit growth

Our net profit increased by approximately 314.9% in 2013 as compared to 2012, which was primarily due to the increase in our revenue as explained above and our increase in gross profit margin as a result of our increased efficiency and productivity and reduced reliance on labour resources and subcontractors due to our increasing use of remote controlled demolition robots in performing our concrete demolition jobs. Our net profit increased by approximately 34.9% for the three months ended 31 March 2014 as compared to the three months ended 31 March 2013, which was primarily due to the increase in our revenue as explained above.

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Please refer to the section “Financial information – Period-to-period comparison of results of operation” in this prospectus for a further discussion of our net profit growth during the Track Record Period.

Gross profit margin

Gross profit margin is calculated as gross profit divided by revenue of the respective reporting year/period.

Our gross profit margin increased substantially from approximately 27.2% in 2012 to approximately 36.8% in 2013, which was mainly due to our increase in revenue coupled with a less-than-proportionate increase in our cost of sales as a result of our increased efficiency and productivity and our relatively reduced reliance on labour resources and subcontractors due to our increasing use of remote controlled demolition robots in performing our concrete demolition jobs.

Our gross profit margin was approximately 45.8% for the three months ended 31 March 2013 and approximately 45.5% for the three months ended 31 March 2014, which remained relatively stable. Our gross profit margin for the first quarter of the year was higher than our overall gross profit margin of approximately 36.8% for the year ended 31 December 2013 because we generally engage relatively fewer subcontractors and rely relatively more on our own labour resources in the first quarter of the year due to the Chinese New Year period during which subcontractors may not be available for service.

Please refer to the section “Financial information – Period-to-period comparison of results of operation” in this prospectus for a discussion of the changes in our gross profit margin during the Track Record Period.

Net profit margin before interest and tax

Net profit margin before interest and tax is calculated as profit before finance costs and income tax divided by revenue of the respective reporting year/period.

Net profit margin before interest and tax increased substantially from approximately 5.0% in 2012 to approximately 17.4% in 2013, which was primarily due to the increase in our gross profit margin in 2013 as compared to 2012 as explained above.

Net profit margin before interest and tax was approximately 22.0% for the three months ended 31 March 2013 and approximately 18.2% for the three months ended 31 March 2014, representing a decrease of approximately 3.8% despite our increase in revenue and our relatively stable gross profit margin during the relevant periods. This was mainly because of the non-recurring listing expenses of approximately HK\$2.2 million recognised for the three months ended 31 March 2014 but nil for the three months ended 31 March 2013.

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Net profit margin

Net profit margin is calculated as profit for the year/period attributable to owners of our Company divided by revenue of the respective reporting year/period.

Net profit margin increased substantially from approximately 4.2% in 2012 to approximately 13.2% in 2013, which was primarily due to the increase in our gross profit margin in 2013 as compared to 2012 as explained above.

The increase in our net profit margin in 2013 compared to that in 2012 was relatively lower than the increase in our net profit margin before interest and tax, primarily due to the significantly higher income tax expense provided in 2013 due to the substantial increase in our profit before income tax, the utilisation of previously unrecognised tax losses in 2012 and the recognition of deferred tax liabilities not previously recognised in prior years in 2013.

Net profit margin was approximately 13.5% for the three months ended 31 March 2013 and approximately 12.9% for the three months ended 31 March 2014, which remained relatively stable despite our lower net profit margin before interest and tax as discussed above. This was mainly because of our decrease in income tax expense recognised for the three months ended 31 March 2014 as compared to the three months ended 31 March 2013 (notwithstanding our higher net profit in the three months ended 31 March 2014 as compared to the three months ended 31 March 2013 and our non-deductible listing expenses incurred in the three months ended 31 March 2014 but nil in the three months ended 31 March 2013) primarily due to the recognition of deferred tax liabilities not previously recognised in prior years for the three months ended 31 March 2013 which led to the higher income tax expense for the three months ended 31 March 2013 as compared to the three months ended 31 March 2014.

Return on equity

Return on equity is calculated as profit for the year/period attributable to owners of our Company divided by the ending total equity as at the respective reporting date.

Our return on equity increased from approximately 44.7% for the year ended 31 December 2012 to approximately 65.0% for the year ended 31 December 2013, mainly due to the significant increase in our profit as a result of our revenue growth and the increase in our gross profit margin as explained above, notwithstanding our increase in total equity from approximately HK\$5.3 million as at 31 December 2012 to approximately HK\$15.1 million as at 31 December 2013 as a result of our significant increase in retained earnings in 2013.

Our return on equity was approximately 27.3% for the three months ended 31 March 2013 and approximately 13.0% for the three months ended 31 March 2014. The decrease was primarily due to the significantly increase in our total equity from approximately HK\$7.3 million as at 31 March 2013 to approximately HK\$20.6 million as at 31 March 2014 mainly as a result of the increase in our retained earnings due to our profitable operations.

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Return on assets

Return on assets is calculated as profit for the year/period attributable to owners of our Company divided by the ending total assets as at the respective reporting date.

Our return on assets increased from approximately 7.9% for the year ended 31 December 2012 to approximately 23.4% for the year ended 31 December 2013, mainly due to the significant increase in our profit as a result of our revenue growth and the increase in our gross profit margin as explained above, notwithstanding our increase in total assets from approximately HK\$30.2 million as at 31 December 2012 to approximately HK\$42.1 million as at 31 December 2013 as a result of our significant increase in trade and other receivables and cash and cash equivalents in 2013 due to our business growth.

Our return on assets was approximately 6.6% for the three months ended 31 March 2013 and approximately 6.0% for the three months ended 31 March 2014, which remained relatively stable.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting date.

Our current ratio increased from approximately 1.0 as at 31 December 2012 to approximately 1.4 as at 31 December 2013, which was primarily attributable to (i) our business growth in 2013 as compared to that in 2012 resulting in the significant increase in our current assets, including the increase in our cash and cash equivalents and the increase in our trade and other receivables; and (ii) the decrease in our amount due to a shareholder after partial settlement notwithstanding being partly offset by (i) an increase in borrowings (including bank borrowings and finance lease liabilities) to finance our capital expenditures and growth in business operations; and (ii) increase in trade and other payables which is generally in line with our business growth in 2013.

Our current ratio further improved to approximately 1.7 as at 31 March 2014 primarily as a result of the increase in our cash and cash equivalent due to our continued business growth and the collection of our trade receivables, coupled with the decrease in our trade and other payables mainly because we engaged fewer subcontractors during the Chinese New Year period in 2014, resulting in less payables to subcontractors.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting date.

Our quick ratio increased from approximately 0.9 as at 31 December 2012 to approximately 1.3 as at 31 December 2013 and further to approximately 1.7 as at 31 March 2014, which was not materially different from our current ratio as our inventories as at 31

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December 2012 and 2013 and 31 March 2014 were not significant, accounting for only approximately 7.0%, 5.0% and 2.6% of our total current assets as at the respective year end dates.

Inventories turnover days

Inventories turnover days is calculated based on the average of the beginning and ending balance of inventories divided by cost of sales for the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

Our inventories represent raw materials and consumables used in the provision of our concrete demolition services such as saw blades and cutting wires. Inventories turnover days decreased from approximately 9.4 days in 2012 to 7.2 days in 2013 and further to 5.4 days for the three months ended 31 March 2014, which was mainly attributable to the use of materials and consumables at a faster rate in 2013 and the three months ended 31 March 2014 as a result of our business growth and increase in the value of our concrete demolition jobs which require the use of more materials and consumables.

Please refer to the section “Financial information – Inventories” in this prospectus for a further discussion on our inventories and inventories turnover days.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables (net of impairment and excluding retention receivables) divided by revenue during the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

Our trade receivables turnover days increased from approximately 80.6 days in 2012 to approximately 85.0 days in 2013. Such increase was primarily due to (i) the increase in the number of main contractor customers of sizeable construction projects who normally required longer time to process payments to subcontractors; and (ii) the increase in customers’ overdue payments.

Our trade receivables turnover days further increased to approximately 96.5 days as at 31 March 2014 mainly because of the increase in the number of customers who were themselves subcontractors of sizeable construction projects and who therefore required longer time to receive payments from their own customers (i.e. the main contractor) before processing and making payments to their further subcontractors.

Please refer to the section “Financial information – Trade and other receivables” in this prospectus for a further discussion on our trade receivables and trade receivables turnover days.

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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 cost of sales for the year or period, then multiplied by the number of days of the year or period (i.e. 365 days for a full year and 90 days for the three months ended 31 March).

Our trade payable turnover days increased from approximately 31.6 days in 2012 to approximately 42.3 days in 2013 and decreased to approximately 37.7 days for the three months ended 31 March 2014, which was primarily because we settled our trade payables within a comparatively shorter period of time in 2012 and in the three months ended 31 March 2014 as compared to the year 2013.

Please refer to the section “Financial information – Trade and other payables” in this prospectus for a further discussion on our trade payables and trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including interest bearing and non-interest bearing) divided by the total equity as at the respective reporting date.

Gearing ratio significantly decreased from approximately 3.0 as at 31 December 2012 to approximately 1.0 as at 31 December 2013. The high gearing ratio as at 31 December 2012 was primarily due to the use of interest-bearing borrowings to finance our purchases of property, plant and equipment and our daily business operations, coupled with the declaration of an interim dividends of HK\$1.5 million in 2012 which reduced our retained earnings and thus our total equity. The decrease in our gearing ratio as at 31 December 2013 as compared to 2012 was primarily due to the significant growth in our retained earnings (and thus our total equity) in 2013 as a result of our growth in net profit as explained above, coupled with a relatively smaller growth in our interest-bearing borrowings for financing our acquisition of plant and machinery and our daily operations as well as a decrease in our amount due to a shareholder as a result of partial settlement.

Our gearing ratio further decreased to approximately 0.6 as at 31 March 2014 mainly because of our decrease in borrowings coupled with our increase in total equity due to the growth in our retained earnings as a result of our business growth and the recognition of other reserves as a result the waiver of a loan of HK\$2.8 million from Mr. Pei (see the section “Relationship with our Controlling Shareholders – Independence from Controlling Shareholders – Financial independence” in this prospectus for further information on the waiver of the loan).

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. payables incurred not in the ordinary course of business net of cash and cash equivalents) divided by total equity as at the respective reporting date.

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Net debt to equity ratio significantly decreased from approximately 2.4 as at 31 December 2012 to approximately 0.7 as at 31 December 2013, which was primarily due to the significant growth in our retained earnings (and thus our total equity) in 2013 as a result of our growth in net profit growth as explained above, coupled with a relatively smaller increase in our net debt.

Net debt to equity ratio further decreased to approximately 0.4 as at 31 March 2014 primarily due to the decrease in our net debt as a result of our stronger liquidity position contributed mainly by our continued business growth, coupled with our increase in total equity due to the growth in our retained earnings as a result of our business growth and the recognition of other reserves as a result the waiver of a loan of HK\$2.8 million from Mr. Pei (see the section “Relationship with our Controlling Shareholders – Independence from Controlling Shareholders – Financial independence” in this prospectus for further information on the waiver of the loan).

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting year.

Our interest coverage significantly increased from approximately 8.1 in 2012 to approximately 33.9 in 2013, which was primarily due to our significant increase in net profit before finance costs and income tax mainly as a result of our growth in net profit growth as explained above, coupled with a relatively small increase in our finance costs in 2013 as compared to 2012.

Our interest coverage further increased to approximately 37.2 for the three months ended 31 March 2014 mainly due to the further increase in our net profit before finance costs and income tax primarily because of our business growth.

FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk management and sensitivity analysis

Our activities exposed us to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Foreign exchange risk

We are primarily exposed to foreign exchange risk arising from US dollars and Euro. Foreign exchange risk primarily arises from future commercial transactions and recognised assets and liabilities denominated in a foreign currency. We manage our foreign exchange risk by closely monitoring the movement of the foreign currency rates.

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In the opinion of our Directors, the HK dollars are reasonably stable against the US dollars under the Linked Exchange Rate System, and accordingly, no sensitivity analysis with respect to the US dollars is performed.

As at 31 December 2012 and 2013 and 31 March 2014, if HK dollars had weakened/strengthened by 100 basic points against EUR with all other variables held constant, profit before income tax would have become approximately HK\$4,000, HK\$15,000 and HK\$9,000 lower/higher respectively, mainly as a result of foreign exchange losses/gains on translation of euro-denominated trade and other payables.

Our Directors consider that we will have sufficient foreign exchange, primarily from the conversion of HK dollars generated from our operations, to meet our foreign exchange liabilities as they become due.

Interest rate risk

Other than bank balances with variable interest rate, we had no other significant interest-bearing assets. We do not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

Our interest rate risk arises from borrowings. Borrowings issued at variable rates expose our Group to cash flow interest rate risk which is partially offset by cash held at variable rates. We have not hedged our cash flow interest rate risks.

As at 31 December 2012 and 2013 and 31 March 2014, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, our profit before income tax would have been decreased/increased by approximately HK\$92,000, HK\$112,000 and HK\$83,000 respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

Credit risk

Credit risk arises mainly from trade and other receivables, amounts due from related companies and cash at banks. Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statement of financial position.

The credit risk of bank balances is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is

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taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2012 and 2013 and 31 March 2014, there were nil, one and nil customer which individually contributed over 10% of our Group's trade and other receivables respectively. The aggregate amount of trade and other receivables from this customer amounted to 11% of our Group's total trade and other receivables as at 31 December 2013.

Liquidity risk

Our policy is to regularly monitor current and expected liquidity requirements and our compliance with debt covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet liquidity requirements in the short and longer term. We believe there is no significant liquidity risk as we have sufficient committed facilities to fund our operations.

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The following table details the remaining contractual maturities at the year/period end dates during the Track Record Period of our financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year/period end dates during the Track Record Period) and the earliest date we may be required to pay:

	On demand or within one year HK\$'000	Between one and two years HK\$'000	Between two and five years HK\$'000	Total HK\$'000
At 31 December 2012				
Trade and other payables	8,681	–	–	8,681
Amount due to a shareholder	6,611	–	–	6,611
Amount due to a related company	259	–	–	259
Borrowings	<u>4,410</u>	<u>2,456</u>	<u>2,934</u>	<u>9,800</u>
	<u>19,961</u>	<u>2,456</u>	<u>2,934</u>	<u>25,351</u>
At 31 December 2013				
Trade and other payables	9,992	–	–	9,992
Amount due to a shareholder	3,348	–	–	3,348
Borrowings	<u>8,618</u>	<u>2,243</u>	<u>882</u>	<u>11,743</u>
	<u>21,958</u>	<u>2,243</u>	<u>882</u>	<u>25,083</u>
At 31 March 2014				
Trade and other payables	7,135	–	–	7,135
Amount due to a shareholder	5,000	–	–	5,000
Borrowings	<u>6,250</u>	<u>1,975</u>	<u>522</u>	<u>8,747</u>
	<u>18,385</u>	<u>1,975</u>	<u>522</u>	<u>20,882</u>

Capital risk management

Our primary objectives when managing capital are to safeguard our Group's ability to continue as a going concern, so that we can continue to provide returns for Shareholders, to support our stability and growth, to earn a margin commensurate with the level of business and market risks in our operation and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. We monitor capital on the basis of the gearing ratio. Please refer to the section "Financial information – Key financial ratios" in this prospectus for our gearing ratio during the Track Record Period.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about how the proposed listing might have affected the net tangible assets of our Group as if the Placing had occurred on 31 March 2014. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of our Group's financial results and positions of the financial periods concerns.

The unaudited pro forma adjusted combined net tangible assets of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Placing as if it had taken place on 31 March 2014. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group after the Placing or at any future dates.

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 31 March 2014	Add: Estimated net proceeds from the placing of New Shares	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Based on the Placing Price of HK\$0.40 per Share	20,619	33,847	54,466	0.09

Notes:

1. The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 March 2014 is extracted from the accountants' report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the placing of New Shares are based on the Placing Price of HK\$0.40 per Share after deduction of relevant estimated underwriting fees and other related fees and expenses (excluding approximately \$2.7 million listing-related expenses which have been accounted for prior to 31 March 2014).
3. The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in Notes 1 and 2 above and on the basis that 620,000,000 Shares are issued and outstanding as set out in the section "Share Capital" in this prospectus.
4. The unaudited pro forma financial information presented above does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 March 2014).

FINANCIAL INFORMATION

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$17.4 million. The Selling Shareholder will bear the listing expenses proportionally (i.e. approximately HK\$5.2 million) and the listing expenses to be borne by us is expected to be approximately HK\$12.2 million. Of such amount to be borne by us, approximately HK\$3.0 million is directly attributable to the issue of the New Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$9.2 million, which cannot be so deducted, will be charged to profit or loss. Of the approximately HK\$9.2 million which will be charged to profit or loss, nil, nil and approximately HK\$2.2 million has been charged during the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 respectively, and approximately HK\$7.0 million is expected to be incurred for the nine months ending 31 December 2014. Expenses in relation to the Listing are non-recurring in nature. The Board wishes to inform our Shareholders and potential investors that our Group's financial performance and results of operations for the year ending 31 December 2014 will be significantly affected by the estimated expenses in relation to the Listing.

DIVIDEND POLICY

For the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, Drillcut declared dividend of HK\$1.5 million, HK\$nil and HK\$nil respectively to its then shareholders. All dividends declared had been fully paid and we financed the payment of such dividends by internal resources.

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

DISTRIBUTABLE RESERVES

As at 31 March 2014, our aggregate amount of distributable reserves was approximately HK\$12.8 million.

RELATED PARTY TRANSACTIONS

Our related party transactions are set out in note 26 to the Accountants' Report included in Appendix I to this prospectus. Further information is also set forth in the section "Connected transactions" in this prospectus. It is the view of our Directors that each of such related party transactions was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties or on terms not less favourable than terms available from independent third parties, which are considered fair and reasonable and in the interest of our Shareholders as a whole and would not distort our results during the Track Record Period.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had they been required to comply with Rules 17.15 to 17.21 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save for the expenses of approximately HK\$12.2 million estimated to be incurred in connection with the Listing, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 March 2014, and there is no event since 31 March 2014 which would materially affect the information shown in our combined financial information included in the Accountants' Report set forth in Appendix I to this Prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the section “Business – Business strategies” in this prospectus for our Group’s business objectives and strategies.

IMPLEMENTATION PLAN

Our Group’s implementation plans are set forth below for each of the six-month periods until 31 December 2016. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in the section “Future plans and use of proceeds – Bases and assumptions” in this prospectus. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section “Risk factors” in this prospectus. Our Group’s actual course of business may vary from the business objective set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objective of our Group will be accomplished at all. Based on our Group’s business objective, our Directors intend to carry out the following implementation plans:

From the Latest Practicable Date to 31 December 2014

Business strategy	Use of proceeds	Implementation plan
Enhancing our machinery and equipment	HK\$4.9 million	<ul style="list-style-type: none">● Purchase additional new machinery including electric wall saw machines and other equipment, tools and accessories to improve our efficiency and to technical capability● Evaluate the effectiveness and efficiency of new machinery and assess our need for additional machinery in view of our business development and obtain quotation for new machinery
Strengthening our manpower	HK\$1.0 million	<ul style="list-style-type: none">● Recruit about 3 additional experienced project management and execution staff to strengthen our frontline manpower● Recruit about 1 additional experienced staff to strengthen our machinery repair and maintenance team

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
Increasing our marketing efforts	HK\$0.2 million	<ul style="list-style-type: none">● Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety● Place advertisements in industry magazines and sponsor events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group● Revamp our corporate website and brochure● Actively approach and develop relationship with main contractors to obtain and secure new business opportunities

For the six months ending 30 June 2015

Business strategy	Use of proceeds	Implementation plan
Enhancing our machinery and equipment	HK\$6.5 million	<ul style="list-style-type: none">● Purchase additional new machinery including 1 set of additional remote controlled demolition robots, as well as other concrete demolition machinery, equipment, tools and accessories to improve our efficiency and technical capability● Evaluate the effectiveness and efficiency of new machinery and assess our need for additional machinery in view of our business development and obtain quotation for new machinery

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
Strengthening our manpower	HK\$1.2 million	<ul style="list-style-type: none">● Recruit about 3 additional experienced project management and execution staff to strengthen our frontline manpower● Recruit about 1 additional experienced staff to strengthen our machinery repair and maintenance team● Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety
Increasing our marketing efforts	HK\$0.3 million	<ul style="list-style-type: none">● Perform direct mailings of revamped corporate brochures to potential customers based on our research of new construction projects on our subscribed industry database● Place advertisement through online channels and in industry magazines and publications and sponsor more events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group● Actively approach and develop relationship with main contractors to obtain and secure new business opportunities

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2015

Business strategy	Use of proceeds	Implementation plan
Enhancing our machinery and equipment	Nil	<ul style="list-style-type: none">● Evaluate the effectiveness and efficiency of new machinery and assess our need for additional machinery in view of our business development and obtain quotation for new machinery ● Obtain and review quotations and detailed functional specifications of the new machinery and equipment that could enhance our efficiency and technical capability
Strengthening our manpower	HK\$0.8 million	<ul style="list-style-type: none">● Recruit about 1 additional experienced project management and execution staff to strengthen our frontline manpower ● Recruit about 1 additional experienced staff to strengthen our machinery repair and maintenance team ● Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
Increasing our marketing efforts	HK\$0.4 million	<ul style="list-style-type: none">● Perform direct mailings of revamped corporate brochures to potential customers based on our research of new construction projects on our subscribed industry database● Place advertisement through online channels and in industry magazines and publications and sponsor more events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group● Actively approach and develop relationship with main contractors to obtain and secure new business opportunities

For the six months ending 30 June 2016

Business strategy	Use of proceeds	Implementation plan
Enhancing our machinery and equipment	HK\$2.0 million	<ul style="list-style-type: none">● Purchase additional equipment, tools and accessories to improve our efficiency and technical capability● Evaluate the effectiveness and efficiency of new machinery and assess our need for additional machinery in view of our business development and obtain quotation for new machinery
Strengthening our manpower	HK\$0.8 million	<ul style="list-style-type: none">● Recruit about 1 additional experienced project management and execution staff to strengthen our frontline manpower

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
Increasing our marketing efforts	HK\$0.4 million	<ul style="list-style-type: none"> ● Assess the sufficiency of our labour resources having regard to our business development ● Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety ● Place advertisement through online channels and in industry magazines and publications and sponsor more events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group ● Perform direct mailings of revamped corporate brochures to potential customers based on our research of new construction projects on our subscribed industry database ● Actively approach and develop relationship with main contractors to obtain and secure new business opportunities

For the six months ending 31 December 2016

Business strategy	Use of proceeds	Implementation plan
Enhancing our machinery and equipment	HK\$3.0 million	<ul style="list-style-type: none"> ● Purchase an additional 1 set of remote controlled demolition robot to improve our efficiency and technical capability ● Evaluate the effectiveness and efficiency of new machinery

FUTURE PLANS AND USE OF PROCEEDS

Business strategy	Use of proceeds	Implementation plan
<p>Strengthening our manpower</p>	<p>HK\$0.8 million</p>	<ul style="list-style-type: none"> ● Recruit about 1 additional experienced project management and execution staff to strengthen our frontline manpower ● Recruit about 1 additional experienced staff to strengthen our machinery repair and maintenance team ● Assess the sufficiency of our labour resources having regard to our business development ● Provide our workers with and sponsor our workers to attend training courses on different types of concrete demolition methods, operation of different types of machinery, as well as work safety
<p>Increasing our marketing efforts</p>	<p>HK\$0.4 million</p>	<ul style="list-style-type: none"> ● Perform direct mailings of revamped corporate brochures to potential customers based on our research of new construction projects on our subscribed industry database ● Place advertisement through online channels and in industry magazines and publications and sponsor more events in the engineering and construction industries in Hong Kong to promote industry players' awareness of our Group ● Actively approach and develop relationship with main contractors to obtain and secure new business opportunities

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material change in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out under the section "Risk factors" in this prospectus.

REASONS FOR THE PLACING

The Placing will enhance our Group's capital base and provide our Group with additional capital to implement the future plans set out in the section "Future plans and use of proceeds – Implementation plan" in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

The net proceeds to be received by us from the Placing based on the Placing Price of HK\$0.40 per Share, after deducting related expenses to be borne by us, are estimated to be approximately HK\$31.2 million. Our Directors presently intend that the net proceeds will be applied as follows:

- approximately HK\$16.4 million (approximately 52.5% of the net proceeds), HK\$4.6 million (approximately 14.6% of the net proceeds) and HK\$1.7 million (approximately 5.5% of the net proceeds) will be used for enhancing our machinery and equipment, strengthening our manpower and increasing our marketing efforts respectively, with the intended timing of the deployment of the proceeds as follows:

	From the Latest Practicable Date to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>	For the period from 1 January 2016 to 30 June 2016 <i>HK\$ million</i>	For the period from 1 July 2016 to 31 December 2016 <i>HK\$ million</i>	Total <i>HK\$ million</i>
Enhancing our machinery and equipment	4.9	6.5	–	2.0	3.0	16.4
Strengthening our manpower	1.0	1.2	0.8	0.8	0.8	4.6
Increasing our marketing efforts	0.2	0.3	0.4	0.4	0.4	1.7

- approximately HK\$5.5 million (approximately 17.6% of the net proceeds) will be used for the repayment of bank borrowings, of which:
 - approximately HK\$2.5 million represents the outstanding amount as at the Latest Practicable Date of a bank loan drawn in September 2013 under the SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited for financing the daily operation of our Group which bears interest at 3.5% per annum and is repayable on a monthly basis over the loan term of 5 years up to September 2018;
 - approximately HK\$3.0 million were drawn down in July 2014 from a general line of credit bearing interest at 3.25% per annum and repayable in full in October 2014 for financing the daily operation of our Group; and
- approximately HK\$3.0 million (approximately 9.8% of the net proceeds) will be used as our general working capital.

Our Directors and the Sponsor consider that the net proceeds to be received by us from the Placing of about HK\$31.2 million and our Group's internal resources will be sufficient to finance the business plans of our Group as scheduled up to 31 December 2016.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds to be received by us from the Placing are not immediately required for the above purposes, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits or treasury products with authorised financial institutions.

We estimate that the Selling Shareholder will receive net proceeds of approximately HK\$13.4 million after deduction of underwriting fees and commissions and estimated expenses payable by the Selling Shareholder in relation to the Placing. We will not receive any of the net proceeds of the Placing from the sale of the Sale Shares by the Selling Shareholder.

UNDERWRITING

UNDERWRITER

Orient Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company and the Selling Shareholder will conditionally place the Placing Shares with institutional, professional and other investors at the Placing Price subject to the terms and conditions in the Underwriting Agreement and this prospectus. Subject to, among other conditions, the Listing Division of the Stock Exchange granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being fulfilled, the Underwriter has agreed to subscribe for or purchase or procure subscribers or buyers for the Placing Shares on the terms and conditions under the Underwriting Agreement and in this prospectus.

Grounds for termination

The Lead Manager shall have the absolute discretion to terminate the arrangements set out in the Underwriting Agreement by notice in writing given to our Company (for itself and on behalf of the Selling Shareholder) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

- (a) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction;
- (b) any adverse change (whether or not permanent) in local, national or international stock market conditions;
- (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;
- (d) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction;
- (e) any adverse change in the business or in the financial or trading position of our Group or otherwise;

UNDERWRITING

- (f) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands, the BVI, or any relevant jurisdiction;
- (g) a general moratorium on commercial banking business activities in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction declared by the relevant authorities; or
- (h) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, natural disaster or outbreak of infectious diseases,

which in the reasonable opinion of the Lead Manager:

- (i) might be materially adverse to the business, financial condition or prospects of our Group taken as a whole; or
- (ii) might have a material adverse effect on the success of the Placing or might have the effect of making any part of the Underwriting Agreement incapable of implementation or performance in accordance with its terms; or
- (iii) makes it inadvisable or inexpedient to proceed with the Placing.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of, the Lead Manager:

- (a) any breach of any of the warranties or any other provision of the Underwriting Agreement which is considered, in the reasonable opinion of the Lead Manager, to be material in the context of the Placing; or
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the reasonable opinion of the Lead Manager in the context of the Placing; or
- (c) any statement contained in this prospectus and the placing letter reasonably considered to be material by the Lead Manager which is discovered to be or becomes untrue, incorrect or misleading and in the reasonable opinion of the Lead Manager to be material in the context of the Placing; or
- (d) any event, act or omission which in the reasonable opinion of the Lead Manager gives rise or is likely to give rise to any material liability of any of our Company and our Controlling Shareholders pursuant to the indemnities contained in the

UNDERWRITING

Underwriting Agreement, the Lead Manager shall be entitled (but not bound) by notice in writing to our Company on or prior to such time to terminate the Underwriting Agreement.

Undertakings

Our Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six (6) months from the Listing Date (whether or not such issue of shares or securities will be completed within six (6) months from the Listing Date), except for those permitted in accordance with rule 17.29 subsections (1) to (5) of GEM Listing Rules.

Under the Underwriting Agreement,

- (a) (i) each of our Controlling Shareholders, the Selling Shareholder and executive Directors undertakes to and covenants with our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter and the Stock Exchange that, save as permitted under the GEM Listing Rules, he/she/it shall not and shall procure that the relevant registered holders shall not:
 - (A) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First 6-Month Period**”), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect (the “**Encumbrances**”) in respect of any of the Shares which he/she/it is shown in this prospectus to be the beneficial owner(s); and
 - (B) in the period of six months commencing on the date immediately following the date on which the First 6-Month Period expires, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/she/it would cease to be a Controlling Shareholder,

provided that the restrictions in this paragraph (i) shall not apply to any Shares which our Controlling Shareholders or any of his/her/its respective close associates may acquire or become interested in following the Listing Date;

UNDERWRITING

- (ii) each of our executive Directors, Selling Shareholder and Controlling Shareholders further undertakes to and covenants with our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter and the Stock Exchange that:
 - (A) in the event that he/she/it pledges or charges any of his/her/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (i) above, he/she/it must inform our Company, the Sponsor, the Bookrunner, the Lead Manager and the Underwriter immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
 - (B) having pledged or charged any of his/her/its interests in the Shares under sub-paragraph (A) above, he/she/it must inform our Company, the Bookrunner, the Lead Manager and the Underwriter immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected; and
- (b) our Company undertakes to and covenants with the Sponsor, the Bookrunner, the Lead Manager and the Underwriter, and each of our executive Directors, Selling Shareholder and Controlling Shareholders jointly and severally undertakes to and covenants with the Sponsor, the Bookrunner, the Lead Manager and the Underwriter to procure that, save with the prior written consent of the Lead Manager, or save pursuant to the Capitalisation Issue, the Placing and the Share Option Scheme, our Company shall not, within the period of six months from the Listing Date:
 - (i) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, allot or issue or agree to allot or issue any Shares or any other securities in our Company (including warrants or other convertible securities (and whether or not of a class already listed));
 - (ii) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of our Company;
 - (iii) purchase any securities of our Company; or
 - (iv) offer to or agree to do any of the foregoing or announce any intention to do so.

UNDERWRITING

Total commission, fee and expenses

In connection with the Placing, the Underwriter will receive an underwriting commission of 3.0% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions.

In connection with the Listing, the Sponsor will receive a sponsorship and documentation fee.

In connection with the Listing and the Placing, the total expenses are estimated to be approximately HK\$17.4 million (including the underwriting commission, brokerage, the Stock Exchange trading fee, the SFC transaction levy, the sponsorship and documentation fee, the listing fee, legal and other professional fees, printing cost and other expenses relating to the Placing) which shall be borne by our Company and the Selling Shareholder in the proportion of 70% and 30% respectively.

Our Company, the Selling Shareholder and the executive Directors have agreed to indemnify the Bookrunner, the Lead Manager and the Underwriter for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreement, and any breach by our Company and/or the Selling Shareholder of the Underwriting Agreement.

Independence of the Sponsor

The Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

Sponsor's, Bookrunner's, Lead Manager's and Underwriter's interests in our Company

The Sponsor has been appointed as the compliance adviser of our Company with effect from the Listing Date until despatch of the audited consolidated financial results for the second full financial year after the Listing Date, and our Company will pay to the Sponsor an agreed fee for its provision of services with the scope required under the GEM Listing Rules.

Save for their interests and obligations under the Underwriting Agreement, the advisory and documentation fee payable to the Sponsor in respect of the Placing, and the fee payable to the Sponsor for its acting as our compliance adviser, none of the Sponsor, the Bookrunner, the Lead Manager and the Underwriter is interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING PRICE

The Placing Price is HK\$0.40 per Placing Share plus 1% brokerage fee, 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy make up total price payable on subscription. The Shares will be traded in board lots of 5,000 Shares each.

THE PLACING

Placing

The Placing of 155,000,000 Placing Shares comprising 108,500,000 New Shares and 46,500,000 Sale Shares are conditionally offered by our Company and the Selling Shareholder, respectively, by way of private placements to professional, institutional and/or other investors. The Placing Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue. The Placing is fully underwritten by the Underwriter.

Pursuant to the Placing, it is expected that the Underwriter or selling agents nominated by it, on behalf of our Company and the Selling Shareholder, will conditionally place the Placing Shares at the Placing Price (plus 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy) with selected professional, institutional and/or other investors in Hong Kong. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and/or corporate entities which regularly invest in shares and other securities. Private investors applying for the Placing Shares through banks or other institutions under the Placing may also be allocated the Placing Shares.

Basis of Allocation

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of our Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that no more than 50% of the Shares in public hands at the time of the Listing will be owned by the three largest public Shareholders. No allocations of the Placing Shares will be permitted to nominee company unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

The Placing is subject to the conditions as stated in the section "Structure and conditions of the Placing – Conditions of the Placing" in this prospectus.

STRUCTURE AND CONDITIONS OF THE PLACING

CONDITIONS OF THE PLACING

Acceptance of your applications is conditional upon, among other things:

- (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including any Shares which may fall to be issued upon the exercise of the options that may be granted under the Share Option Scheme; and
- (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Lead Manager) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date). Details of the Underwriting Agreement, their conditions and grounds for termination, are set out in the section “Underwriting” in this prospectus,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Listing Division of the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by our Company on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.drillcut.com.hk on the next Business Day following such lapse.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Friday, 15 August 2014. Shares will be traded in board lots of 5,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

STRUCTURE AND CONDITIONS OF THE PLACING

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

Our Company expects to announce the level of indication of interests in the Placing on or before Thursday, 14 August 2014 on our Company's website at www.drillcut.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

The following is the text of a report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 August 2014

The Directors
Glory Flame Holdings Limited
Messis Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Glory Flame Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014 (the "Track Record Period"), for inclusion in the prospectus of the Company dated 7 August 2014 (the "Prospectus") in connection with the proposed listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 25 April 2014. Through a corporate reorganisation as more fully explained in the paragraph headed "Corporate Reorganisation" in Appendix IV "Statutory and General Information" to the Prospectus (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 8 May 2014.

As at the date of this report, the Company has the following wholly-owned subsidiaries:

Name of subsidiary	Legal form, date and place of incorporation/operations	Issued and fully paid up share capital	Proportion ownership interest held by the Company	Principal activities
Ultimate Expert Holdings Limited ("Ultimate Expert")	Limited liability company incorporated on 8 January 2014, the British Virgin Islands (the "BVI")	US\$2,000	100% (direct)	Investment holding
Drillcut Limited ("Drillcut")	Limited liability company incorporated on 5 May 1981, Hong Kong	HK\$5,000,000	100% (indirect)	Provision of concrete demolition services in Hong Kong as a subcontractor

The financial year end date of the companies now comprising the Group is 31 December.

No audited statutory financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement and the Company has not carried on any business other than those transactions relating to the Reorganisation.

No audited statutory financial statements have been prepared for Ultimate Expert since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

The statutory financial statements of Drillcut for the year ended 31 December 2013 were audited by us. The statutory financial statements of Drillcut for the year ended 31 December 2012 which were prepared in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") were audited by Raymond Y.K. Tse & Co. CPA Limited, Certified Public Accountants (Practising), Hong Kong.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Track Record Period (the "Underlying Financial Statements") in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

We have undertaken an independent audit on the Underlying Financial Statements for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1 of Section II below, and no adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section II below, the Financial Information gives, for the purpose of this report, a true and fair view of the combined state of affairs of the Group as at 31 December 2012 and 2013 and 31 March 2014, and of the combined results and combined cash flows of the Group for the Track Record Period.

The comparative combined statement of profit or loss and other comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the three months ended 31 March 2013 together with the notes thereon have been extracted from the Group's unaudited combined financial information for the same period (the "31 March 2013 Financial Information"), which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 31 March 2013 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquiries of the Group's management and applying analytical and other review procedures to the 31 March 2013 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 March 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 March 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

I FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group as at 31 December 2012 and 2013 and 31 March 2014 and for each of the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014, presented on the basis set out in Note 1 of Section II below:

Combined statements of profit or loss and other comprehensive income

		Year ended 31 December 2012	Year ended 31 December 2013	Three months ended 31 March 2013	Three months ended 31 March 2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Revenue	5	56,875	74,394	14,750	20,780
Cost of sales	6	<u>(41,389)</u>	<u>(47,014)</u>	<u>(7,988)</u>	<u>(11,330)</u>
Gross profit		15,486	27,380	6,762	9,450
Other income and net gains	5	59	143	69	3
Administrative and other operating expenses	6	<u>(12,703)</u>	<u>(14,606)</u>	<u>(3,583)</u>	<u>(5,663)</u>
Operating profit		2,842	12,917	3,248	3,790
Finance costs	9	<u>(353)</u>	<u>(381)</u>	<u>(104)</u>	<u>(102)</u>
Profit before income tax		2,489	12,536	3,144	3,688
Income tax expense	10	<u>(120)</u>	<u>(2,706)</u>	<u>(1,152)</u>	<u>(1,001)</u>
Profit and total comprehensive income for the year/period attributable to owners of the Company		<u>2,369</u>	<u>9,830</u>	<u>1,992</u>	<u>2,687</u>
Basic and diluted earnings per share	11	HK cents <u>0.46</u>	HK cents <u>1.92</u>	HK cents <u>0.39</u>	HK cents <u>0.53</u>

Details of dividends are disclosed in Note 12 to the Financial Information.

Combined statements of financial position

		As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
	<i>Note</i>			
ASSETS				
Non-current assets				
Property, plant and equipment	<i>13</i>	10,721	10,305	9,707
Current assets				
Inventories	<i>15</i>	1,356	1,592	898
Trade and other receivables	<i>16</i>	14,405	25,400	26,422
Amounts due from related companies	<i>17</i>	194	372	1,150
Cash and cash equivalents	<i>18</i>	3,478	4,384	6,264
		<u>19,433</u>	<u>31,748</u>	<u>34,734</u>
Total assets		<u><u>30,154</u></u>	<u><u>42,053</u></u>	<u><u>44,441</u></u>
EQUITY				
Capital and reserves				
Combined capital	<i>23</i>	5,000	5,000	5,000
Other reserves		–	–	2,800
Retained earnings		302	10,132	12,819
Total equity		<u>5,302</u>	<u>15,132</u>	<u>20,619</u>
LIABILITIES				
Non-current liabilities				
Borrowings	<i>19</i>	5,122	3,025	2,426
Deferred taxation	<i>22</i>	–	765	915
		<u>5,122</u>	<u>3,790</u>	<u>3,341</u>
Current liabilities				
Trade and other payables	<i>20</i>	8,681	9,992	7,135
Amount due to a shareholder	<i>21</i>	6,611	3,348	5,000
Amount due to a related company	<i>21</i>	259	–	–
Borrowings	<i>19</i>	4,059	8,144	5,848
Tax payable		120	1,647	2,498
		<u>19,730</u>	<u>23,131</u>	<u>20,481</u>
Total liabilities		<u>24,852</u>	<u>26,921</u>	<u>23,822</u>
Total equity and liabilities		<u><u>30,154</u></u>	<u><u>42,053</u></u>	<u><u>44,441</u></u>
Net current (liabilities)/assets		<u>(297)</u>	<u>8,617</u>	<u>14,253</u>
Total assets less current liabilities		<u><u>10,424</u></u>	<u><u>18,922</u></u>	<u><u>23,960</u></u>

Combined statements of changes in equity

	Combined capital HK\$'000 (Note 23)	Capital reserves HK\$'000	(Accumulated losses)/ Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2012	5,000	–	(567)	4,433
Profit and total comprehensive income for the year	–	–	2,369	2,369
Dividends (Note 12)	–	–	(1,500)	(1,500)
Balance at 31 December 2012	<u>5,000</u>	<u>–</u>	<u>302</u>	<u>5,302</u>
Balance at 1 January 2013	5,000	–	302	5,302
Profit and total comprehensive income for the year	–	–	9,830	9,830
Balance at 31 December 2013	<u>5,000</u>	<u>–</u>	<u>10,132</u>	<u>15,132</u>
Balance at 1 January 2014	5,000	–	10,132	15,132
Deemed contribution from Mr. Pei Wing Fu arising from waiver of a loan (Note (a))	–	2,800	–	2,800
Profit and total comprehensive income for the period	–	–	2,687	2,687
Balance at 31 March 2014	<u>5,000</u>	<u>2,800</u>	<u>12,819</u>	<u>20,619</u>
(Unaudited)				
Balance at 1 January 2013	5,000	–	302	5,302
Profit and total comprehensive income for the period	–	–	1,992	1,992
Balance at 31 March 2013	<u>5,000</u>	<u>–</u>	<u>2,294</u>	<u>7,294</u>

Note:

- (a) This represents the waiver of the amount due to Mr. Pei Wing Fu, the controlling shareholder of the Company, and is accounted for as deemed capital contribution from the shareholder.

Combined statements of cash flows

		Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (Unaudited)	Three months ended 31 March 2014 HK\$'000
	<i>Note</i>				
Cash flows from operating activities					
Net cash generated from operations	24(a)	8,090	6,449	1,328	1,085
Tax paid		—	(414)	—	—
Net cash generated from operating activities		<u>8,090</u>	<u>6,035</u>	<u>1,328</u>	<u>1,085</u>
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		23	88	22	—
Deposits paid for purchases of property, plant and equipment		—	—	—	(387)
Purchases of property, plant and equipment		(2,525)	(4,900)	(647)	(821)
Net cash used in investing activities		<u>(2,502)</u>	<u>(4,812)</u>	<u>(625)</u>	<u>(1,208)</u>
Cash flows from financing activities					
Drawdown of bank borrowings		2,000	7,000	—	—
Repayment of finance leases		(2,157)	(2,816)	(768)	(633)
Repayment of bank borrowings		(2,465)	(2,620)	(119)	(2,262)
Interest paid on finance leases		(256)	(298)	(92)	(54)
Interest paid on bank borrowings		(97)	(83)	(12)	(48)
Loan from a shareholder		—	—	—	5,000
Dividends paid		—	(1,500)	—	—
Net cash (used in)/generated from financing activities		<u>(2,975)</u>	<u>(317)</u>	<u>(991)</u>	<u>2,003</u>
Net increase/(decrease) in cash and cash equivalents		2,613	906	(288)	1,880
Cash and cash equivalents at beginning of year/period		<u>865</u>	<u>3,478</u>	<u>3,478</u>	<u>4,384</u>
Cash and cash equivalents at end of year/period	18	<u><u>3,478</u></u>	<u><u>4,384</u></u>	<u><u>3,190</u></u>	<u><u>6,264</u></u>

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 25 April 2014 as an exempted company with limited liability. Its parent and ultimate holding company is Power Key Investments Limited (“Power Key”), a company incorporated in the BVI and owned as to 74.55% by Mr. Pei Wing Fu (“Mr. Pei”) and as to 25.45% by Ms. Lau Kwai Fong (“Mrs. Pei”), spouse of Mr. Pei.

The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” of the Prospectus. The Company is an investment holding company. The Group is principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor.

Throughout the Track Record Period, the group entities were under the control of Mr. Pei. Through the Reorganisation as more fully explained in the paragraph headed “Corporate Reorganisation” in Appendix IV “Statutory and General Information” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 8 May 2014. Accordingly, for the purpose of the preparation of the Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Track Record Period. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group was under the control of Mr. Pei prior to and after the Reorganisation.

The Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Track Record Period in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period, which include the results, changes in equity and cash flows of the companies now comprising the Group, have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation where this is a shorter period. The combined statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The Financial Information is presented in Hong Kong dollars (“HK\$” or “HKD”), which is the same as the functional currency of the Company. The choice of presentation currency is to better reflect the currency that mainly determines the economic effects of transactions, events and conditions of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of presentation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information set out in this report has been prepared under the historical cost convention, except as otherwise stated in the accounting policies below.

The preparation of the Financial Information in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4 below.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective for the Track Record Period and which the Group has not early adopted:

		Effective for accounting periods of the Group beginning on or after
HKAS 19 (2011) Amendment	Defined Benefit Plans: Employee Contributions	1 January 2015
Annual Improvements Project	Annual Improvements 2010-2012 Cycle	1 January 2015
Annual Improvements Project	Annual Improvements 2011-2013 Cycle	1 January 2015
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 9	Financial Instruments	To be determined

The Group will adopt these new standards, amendments and interpretations in the period of initial application. It is not expected to have a significant impact on the Group's result of operations and its financial position.

(b) Consolidation and combination

The combined financial information includes the financial information of the Company and all its subsidiaries made up to respective year end dates during the Track Record Period.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the recognised amount of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Transaction with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Merger accounting for common control combinations

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting reported to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

(f) Foreign currency translation*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in HKD, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in the combined statement of profit or loss and other comprehensive income within "Other income and net gains".

(iii) Group companies

The results and financial position of all companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the combined statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and machinery	25%
Furniture and fixtures	20%
Motor vehicles	25%
Decoration	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and net gains" in the combined statement of profit or loss and other comprehensive income.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statement of profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the combined statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(j) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "amounts due from related companies" and "cash and cash equivalents" in the combined statement of financial position.

(k) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(n) Cash and cash equivalents

In the combined statement of cash flow, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

(o) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(r) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred tax liabilities are not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred taxation liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The Group operates a defined contribution plan and pays contributions to a privately administered pension insurance plan on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

(iv) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

(u) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amounts have been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase in the provision due to passage of time is recognised as interest expense.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts returns. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Provision of concrete demolition services

Revenue from provision of concrete demolition services is recognised based on the stage of completion of the jobs, provided that the stage of jobs completion and the gross billing value of the jobs can be measured reliably. Progress billing is made according to the stage of job completion by reference to the work done as reviewed and approved by the customers.

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(x) 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 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 the employees of the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(y) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are declared by the directors in case of interim dividends or approved by the Company's shareholders in case of final dividends.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities exposed it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group is primarily exposed to foreign exchange risk arising from United States dollars ("USD") and Euro ("EUR"). Foreign exchange risk primarily arises from future commercial transactions and recognised assets and liabilities denominated in a foreign currency.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. In the opinion of the directors, the HKD are reasonably stable against the USD under the Linked Exchange Rate System, and accordingly, no sensitivity analysis with respect to the USD is performed.

At 31 December 2012 and 2013 and 31 March 2014, if HKD had weakened/strengthened by 100 basis points against the EUR with all other variables held constant, profit before income tax would have been approximately HK\$4,000, HK\$15,000 and HK\$9,000 lower/higher respectively, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade and other payables.

(ii) Interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group has not hedged its cash flow interest rate risks.

As at 31 December 2012 and 2013 and 31 March 2014, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's profit before income tax would have been decreased/increased by approximately HK\$92,000, HK\$112,000 and HK\$83,000 respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

(iii) *Credit risk*

Credit risk arises mainly from trade and other receivables, amounts due from related companies and cash at banks. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statement of financial position.

The credit risk of bank balances is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2012 and 2013 and 31 March 2014, there were nil, one and nil customer which individually contributed over 10% of the Group's trade and other receivables, respectively. The aggregate amount of trade and other receivables from this customer amounted to 11% of the Group's total trade and other receivables as at 31 December 2013.

(iv) *Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and long term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The following table details the remaining contractual maturities at the year/period end dates during the Track Record Period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year/period end dates during the Track Record Period) and the earliest date the Group may be required to pay:

	On demand or within one year HK\$'000	Between one and two years HK\$'000	Between two and five years HK\$'000	Total HK\$'000
At 31 December 2012				
Trade and other payables	8,681	–	–	8,681
Amount due to a shareholder	6,611	–	–	6,611
Amount due to a related company	259	–	–	259
Borrowings	<u>4,410</u>	<u>2,456</u>	<u>2,934</u>	<u>9,800</u>
	<u>19,961</u>	<u>2,456</u>	<u>2,934</u>	<u>25,351</u>
At 31 December 2013				
Trade and other payables	9,992	–	–	9,992
Amount due to a shareholder	3,348	–	–	3,348
Borrowings	<u>8,618</u>	<u>2,243</u>	<u>882</u>	<u>11,743</u>
	<u>21,958</u>	<u>2,243</u>	<u>882</u>	<u>25,083</u>
At 31 March 2014				
Trade and other payables	7,135	–	–	7,135
Amount due to a shareholder	5,000	–	–	5,000
Borrowings	<u>6,250</u>	<u>1,975</u>	<u>522</u>	<u>8,747</u>
	<u>18,385</u>	<u>1,975</u>	<u>522</u>	<u>20,882</u>

(b) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operation and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the total interest-bearing liabilities as at each year/period end divided by the total equity as at each year/period end.

The gearing ratios during the Track Record Period are as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Total borrowings (<i>Note 19</i>)	9,181	11,169	8,274
Total equity	5,302	15,132	20,619
Gearing ratio	173%	74%	40%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the Financial Information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives and impairment of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including decline in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Impairment of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management judgement is required in the area of asset impairment particularly in assessing; (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of the operations.

(b) Impairment of receivables

Management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at each statement of financial position date.

Significant judgement is exercised on the assessment of the collectability of receivables from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5 REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents receipts from provision of concrete demolition services in the ordinary course of business. Revenue and other income and net gains recognised during the respective years/periods are as follows:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (Unaudited)	Three months ended 31 March 2014 HK\$'000
Turnover				
Provision of concrete demolition services	56,875	74,394	14,750	20,780
Other income and net gains				
Gain on disposal of property, plant and equipment	23	44	22	–
Others	36	99	47	3
	<u>59</u>	<u>143</u>	<u>69</u>	<u>3</u>

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors regards the Group's business as a single operating segment and reviews Financial Information accordingly. Also, the Group only engages its business in Hong Kong. Therefore, no segment information is presented.

For the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, there were nil, nil, two and one customers which individually contributed over 10% of the Group's revenue, respectively. The aggregate amount of revenue from these customer amounted to 31% and 14% of the Group's total revenue for the three months ended 31 March 2013 and 2014 respectively.

6 EXPENSES BY NATURE

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Cost of sales				
Raw materials and consumables	7,173	8,246	1,212	1,999
Subcontracting charges	15,392	19,356	2,874	4,058
Staff costs (<i>Note 7</i>)	11,116	11,224	2,709	3,134
Transportation expenses	1,207	1,881	177	395
Machinery rental cost	1,421	300	48	35
Repair and maintenance	1,287	1,274	59	479
Depreciation of owned assets (<i>Note 13</i>)	1,304	2,314	313	630
Depreciation of assets under finance leases (<i>Note 13</i>)	2,294	2,294	573	573
Other expenses	195	125	23	27
	<u>41,389</u>	<u>47,014</u>	<u>7,988</u>	<u>11,330</u>
Administrative and other operating expenses				
Auditors' remuneration	36	36	9	125
Staff costs, including directors' emoluments (<i>Note 7</i>)	3,928	4,861	1,123	1,351
Depreciation of owned assets (<i>Note 13</i>)	183	484	34	113
Depreciation of assets under finance leases (<i>Note 13</i>)	1,090	604	234	103
Operating lease rental on premises	1,392	1,445	353	362
Travelling	96	132	64	–
Insurance	599	441	343	33
Listing expenses	–	–	–	2,213
Provision for impairment on trade receivables	–	85	–	–
Provision for impairment on retention receivables	–	581	–	–
Entertainment	1,697	1,836	671	639
Motor vehicles expenses	2,425	2,400	486	447
Other expenses	1,257	1,701	266	277
	<u>12,703</u>	<u>14,606</u>	<u>3,583</u>	<u>5,663</u>

7 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Salaries and allowances	14,415	15,492	3,711	4,314
Retirement scheme contribution – defined contribution plan	629	593	121	171
	<u>15,044</u>	<u>16,085</u>	<u>3,832</u>	<u>4,485</u>

The Group operates a defined contribution scheme in Hong Kong which complies with the requirements under the Mandatory Provident Fund (“MPF”) Schemes Ordinance. All assets under the scheme are held separately from the Group under independently administered funds. Contributions to the MPF scheme follow the MPF Schemes Ordinance.

Salaries and allowances for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 included rental expenses paid to Grandwin Worldwide Resource Limited (“Grandwin”) amounting HK\$600,000, HK\$600,000, HK\$150,000 and HK\$50,000 respectively for the lease of a property as director’s quarter (Note 26).

8 DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director for the Track Record Period is set out below:

	Fee <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2012					
<i>Executive directors</i>					
Mr. Pei	–	1,045	12	14	1,071
Ms. Pei Wing Sze, Clare (“Ms. Pei”)	–	368	12	14	394
	<u>–</u>	<u>1,413</u>	<u>24</u>	<u>28</u>	<u>1,465</u>
Year ended 31 December 2013					
<i>Executive directors</i>					
Mr. Pei	–	1,066	5	15	1,086
Ms. Pei	–	437	5	15	457
	<u>–</u>	<u>1,503</u>	<u>10</u>	<u>30</u>	<u>1,543</u>

	Fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Three months ended 31 March 2014					
<i>Executive directors</i>					
Mr. Pei	–	210	–	4	214
Ms. Pei	–	146	20	4	170
	–	356	20	8	384
Three months ended 31 March 2013 (Unaudited)					
<i>Executive directors</i>					
Mr. Pei	–	262	5	4	271
Ms. Pei	–	106	5	4	115
	–	368	10	8	386

Mr. Pei and Ms. Pei were appointed as directors of the Company on 25 April 2014. The independent non-executive directors, Prof. Lam Sing Kwong Simon, Mr. Law Yiu Sing and Ms. Wong Wai Ling were appointed as directors of the Company on 2 August 2014. During the Track Record Period, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of independent non-executive directors.

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, 2 of them are directors for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 whose emoluments are disclosed above. The emoluments in respect of the remaining 3 individuals for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 are as follows:

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (Unaudited)	Three months ended 31 March 2014 HK\$'000
Salaries and allowances	1,269	1,353	344	478
Discretionary bonuses	24	45	15	30
Retirement scheme contribution	42	45	11	11
	1,335	1,443	370	519

The emoluments of each of the above non-directors, highest paid individuals were below HK\$1,000,000.

During the Track Record Period, no emoluments were paid by the Group to the above highest paid individuals as (i) an inducement to join or upon joining the Group or (ii) as compensation for loss of office as a director or management of any members of the Group.

9 FINANCE COSTS

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Interest on finance leases	256	298	92	54
Interest on bank borrowings wholly repayable within 5 years	<u>97</u>	<u>83</u>	<u>12</u>	<u>48</u>
	<u><u>353</u></u>	<u><u>381</u></u>	<u><u>104</u></u>	<u><u>102</u></u>

10 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014 on the estimated assessable profit arising in or derived from Hong Kong for the year/period.

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Hong Kong profits tax				
– Current year	120	1,941	613	851
Deferred income tax (<i>Note 22</i>)	<u>–</u>	<u>765</u>	<u>539</u>	<u>150</u>
Income tax expense	<u><u>120</u></u>	<u><u>2,706</u></u>	<u><u>1,152</u></u>	<u><u>1,001</u></u>

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Profit before income tax	<u>2,489</u>	<u>12,536</u>	<u>3,144</u>	<u>3,688</u>
Calculated at a tax rate of 16.5%	411	2,069	519	609
Expenses not deductible for tax purposes	36	48	44	392
Temporary differences not recognised	(153)	–	–	–
Utilisation of previously unrecognised tax losses	(164)	–	–	–
Tax concession	(10)	–	–	–
Adjustment in respect of prior years	<u>–</u>	<u>589</u>	<u>589</u>	<u>–</u>
Income tax expense	<u>120</u>	<u>2,706</u>	<u>1,152</u>	<u>1,001</u>

11 EARNINGS PER SHARE

For the purpose of this report, the calculation of the basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company for the Track Record Period and (ii) the weighted average number of 511,500,000 shares (comprising 1,000 shares in issue and 511,499,000 shares to be issued under the capitalisation issue as described in Appendix IV "Statutory and General Information" to the Prospectus) as if these 511,500,000 shares were outstanding throughout the Track Record Period.

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the Track Record Period.

12 DIVIDENDS

	Year ended 31 December 2012 <i>HK\$'000</i>	Year ended 31 December 2013 <i>HK\$'000</i>	Three months ended 31 March 2013 <i>HK\$'000</i> <i>(Unaudited)</i>	Three months ended 31 March 2014 <i>HK\$'000</i>
Interim dividend	<u>1,500</u>	<u>–</u>	<u>–</u>	<u>–</u>

For the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, Drillcut declared dividend of HK\$1,500,000, nil, nil and nil respectively to its then shareholders.

The rate of dividend and the number of shares ranking for dividend is not presented as such information is not meaningful having regard to the purpose of this report.

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK\$'000 (Note a)	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000 (Note b)	Decoration HK\$'000	Total HK\$'000
Cost					
At 1 January 2012	10,463	1,623	6,275	3,558	21,919
Additions	6,984	–	1,192	22	8,198
Disposals	–	–	(315)	–	(315)
At 31 December 2012	<u>17,447</u>	<u>1,623</u>	<u>7,152</u>	<u>3,580</u>	<u>29,802</u>
Accumulated depreciation					
At 1 January 2012	5,275	1,541	4,605	3,104	14,525
Charge for the year (Note 6)	3,598	21	1,089	163	4,871
Disposals	–	–	(315)	–	(315)
At 31 December 2012	<u>8,873</u>	<u>1,562</u>	<u>5,379</u>	<u>3,267</u>	<u>19,081</u>
Net book value					
At 31 December 2012	<u>8,574</u>	<u>61</u>	<u>1,773</u>	<u>313</u>	<u>10,721</u>
Cost					
At 1 January 2013	17,447	1,623	7,152	3,580	29,802
Additions	4,866	–	458	–	5,324
Disposals	(87)	–	(315)	–	(402)
At 31 December 2013	<u>22,226</u>	<u>1,623</u>	<u>7,295</u>	<u>3,580</u>	<u>34,724</u>
Accumulated depreciation					
At 1 January 2013	8,873	1,562	5,379	3,267	19,081
Charge for the year (Note 6)	4,608	20	962	106	5,696
Disposals	(43)	–	(315)	–	(358)
At 31 December 2013	<u>13,438</u>	<u>1,582</u>	<u>6,026</u>	<u>3,373</u>	<u>24,419</u>
Net book value					
At 31 December 2013	<u>8,788</u>	<u>41</u>	<u>1,269</u>	<u>207</u>	<u>10,305</u>
Cost					
At 1 January 2014	22,226	1,623	7,295	3,580	34,724
Additions	816	5	–	–	821
At 31 March 2014	<u>23,042</u>	<u>1,628</u>	<u>7,295</u>	<u>3,580</u>	<u>35,545</u>
Accumulated depreciation					
At 1 January 2014	13,438	1,582	6,026	3,373	24,419
Charge for the period (Note 6)	1,203	5	184	27	1,419
At 31 March 2014	<u>14,641</u>	<u>1,587</u>	<u>6,210</u>	<u>3,400</u>	<u>25,838</u>
Net book value					
At 31 March 2014	<u>8,401</u>	<u>41</u>	<u>1,085</u>	<u>180</u>	<u>9,707</u>

Notes:

- (a) Plant and machinery includes the following amounts where the Group is a lessee under finance leases:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Cost – capitalised finance leases	9,175	9,175	9,175
Accumulated depreciation	<u>(3,133)</u>	<u>(5,427)</u>	<u>(6,000)</u>
Net book value	<u>6,042</u>	<u>3,748</u>	<u>3,175</u>

- (b) Motor vehicles includes the following amounts where the Group is a lessee under finance leases:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Cost – capitalised finance leases	3,413	2,448	1,650
Accumulated depreciation	<u>(1,642)</u>	<u>(1,301)</u>	<u>(806)</u>
Net book value	<u>1,771</u>	<u>1,147</u>	<u>844</u>

14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Financial assets			
<u>Loans and receivables</u>			
Trade and other receivables excluding prepayments	14,405	25,373	25,100
Amounts due from related companies	194	372	1,150
Cash and cash equivalents	<u>3,478</u>	<u>4,384</u>	<u>6,264</u>
Total	<u>18,077</u>	<u>30,129</u>	<u>32,514</u>
Financial liabilities			
<u>Financial liabilities at amortised cost</u>			
Trade and other payables excluding non-financial liabilities	8,681	9,992	7,135
Amount due to a shareholder	6,611	3,348	5,000
Amount due to a related company	259	–	–
Borrowings	<u>9,181</u>	<u>11,169</u>	<u>8,274</u>
Total	<u>24,732</u>	<u>24,509</u>	<u>20,409</u>

15 INVENTORIES

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Raw materials and consumables	<u>1,356</u>	<u>1,592</u>	<u>898</u>

During the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, the cost of inventories recognised as expense and included in "cost of sales" amounted to approximately HK\$7,173,000, HK\$8,246,000, HK\$1,212,000 and HK\$1,999,000 respectively.

16 TRADE AND OTHER RECEIVABLES

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Trade receivables	12,234	22,501	22,227
Less: allowance for impairment of trade receivables	<u>-</u>	<u>(85)</u>	<u>(85)</u>
Trade receivables, net	<u>12,234</u>	<u>22,416</u>	<u>22,142</u>
Retention receivables	2,124	3,491	3,491
Less: allowance for impairment of retention receivables	<u>-</u>	<u>(581)</u>	<u>(581)</u>
Retention receivables, net	<u>2,124</u>	<u>2,910</u>	<u>2,910</u>
Other receivables, deposits and prepayments	<u>47</u>	<u>74</u>	<u>1,370</u>
	<u>14,405</u>	<u>25,400</u>	<u>26,422</u>

Notes:

- (a) Trade receivables are past due when a counterparty has failed to make a payment when contractually due. The credit period granted to customers is 15 days generally. Trade receivables are denominated in HKD.
- (b) The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
0 – 30 days	2,018	6,699	8,841
31 – 60 days	4,150	5,880	4,158
61 – 90 days	1,843	6,285	3,560
91 – 365 days	3,294	2,353	4,808
Over 365 days	<u>929</u>	<u>1,199</u>	<u>775</u>
	<u>12,234</u>	<u>22,416</u>	<u>22,142</u>

Trade receivables of approximately HK\$1,766,000, HK\$6,375,000 and HK\$8,010,000 as at 31 December 2012 and 2013 and 31 March 2014 were not yet past due and approximately HK\$10,468,000, HK\$16,041,000 and HK\$14,132,000 as at 31 December 2012 and 2013 and 31

March 2014 were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default and no provision has therefore been made.

Trade receivables of approximately nil, HK\$85,000 and HK\$85,000 as at 31 December 2012 and 2013 and 31 March 2014 were impaired respectively. The amount of the provision was nil, HK\$85,000 and HK\$85,000 as at 31 December 2012 and 2013 and 31 March 2014 respectively. The ageing of these receivables is more than 365 days. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

Movements in the Group's provision for impairment of trade receivables are as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Beginning of the year/period	–	–	85
Allowance for trade receivables	–	85	–
End of the year/period	<u>–</u>	<u>85</u>	<u>85</u>

As at 31 December 2012 and 2013 and 31 March 2014, retention receivables amounted to approximately nil, HK\$581,000 and HK\$581,000 respectively were individually determined to be impaired, on which the Group experienced unexpected difficulties during the collection process from the customers. The management assessed that the balances are not expected to be recovered and provision for impairment loss was recognised.

Movements in the Group's provision for impairment of retention receivables are as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Beginning of the year/period	–	–	581
Allowance for retention receivables	–	581	–
End of the year/period	<u>–</u>	<u>581</u>	<u>581</u>

- (c) The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

17 AMOUNTS DUE FROM RELATED COMPANIES

Particulars of amounts due from related companies are as follows:

Name	Maximum balance outstanding during the year ended		Maximum balance outstanding during the year ended		Maximum balance outstanding during the period ended 31	
	As at 31 December 2012 HK\$'000	31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000	ended 31 March 2014 HK\$'000
Grandwin	–	–	178	178	–	178
Vincent Engineering Co ("Vincent Engineering")	194	343	194	194	–	194
Power Key	–	–	–	–	1,150	1,150
	<u>194</u>		<u>372</u>		<u>1,150</u>	

The balances are denominated in HKD. The amounts are unsecured, non-interest bearing and repayable on demand.

18 CASH AND CASH EQUIVALENTS

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Cash at banks	3,467	4,360	6,255
Cash on hand	<u>11</u>	<u>24</u>	<u>9</u>
Cash and cash equivalents	<u>3,478</u>	<u>4,384</u>	<u>6,264</u>

Notes:

(a) The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
HKD	3,366	4,272	6,152
USD	<u>112</u>	<u>112</u>	<u>112</u>
	<u>3,478</u>	<u>4,384</u>	<u>6,264</u>

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates.

19 BORROWINGS

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Non-current			
Finance lease liabilities (<i>Note b</i>)	<u>5,122</u>	<u>3,025</u>	<u>2,426</u>
Current			
Bank borrowings (<i>Note a</i>)	1,374	5,754	3,492
Finance lease liabilities (<i>Note b</i>)	<u>2,685</u>	<u>2,390</u>	<u>2,356</u>
	<u>4,059</u>	<u>8,144</u>	<u>5,848</u>
Total borrowings	<u><u>9,181</u></u>	<u><u>11,169</u></u>	<u><u>8,274</u></u>

Notes:

(a) Bank borrowings

Bank borrowings mature until 2018 and bear interest at 3.25% to 4.75% per annum.

As at 31 December 2012 and 2013 and 31 March 2014, bank borrowings amounting to nil, HK\$2,862,000 and HK\$2,723,000 respectively, were drawn under the SME Financing Guarantee Scheme (the "Scheme") launched by The Hong Kong Mortgage Corporation Limited. After the listing, the Group will however not be eligible to apply for the Scheme, which is not available to listed companies. The bank reserves the right to cancel the banking facilities and demand for full repayment without further notice.

The bank borrowings are denominated in HKD.

The bank borrowings are classified as current liabilities according to the HK Interpretation 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA. According to the repayment schedule, the bank borrowings are repayable as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Within a period not exceeding one year	482	3,063	1,072
Within a period of more than one year but not exceeding two years	499	977	854
Within a period of more than two years but not exceeding five years	<u>393</u>	<u>1,714</u>	<u>1,566</u>
	<u><u>1,374</u></u>	<u><u>5,754</u></u>	<u><u>3,492</u></u>

(b) Finance lease liabilities

Lease liabilities are secured as the rights to the leased assets revert to the lessors in the event of default.

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Gross finance lease liabilities – minimum lease payments			
Within a period not exceeding one year	2,966	2,570	2,512
Within a period of more than one year but not exceeding two years	2,456	2,243	1,975
Within a period of more than two years but not exceeding five years	<u>2,934</u>	<u>882</u>	<u>522</u>
	8,356	5,695	5,009
Future finance charges on finance leases	<u>(549)</u>	<u>(280)</u>	<u>(227)</u>
Present value of finance lease liabilities	<u><u>7,807</u></u>	<u><u>5,415</u></u>	<u><u>4,782</u></u>

The present value of finance lease liabilities is as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Within a period not exceeding one year	2,685	2,390	2,356
Within a period of more than one year but not exceeding two years	2,285	2,157	1,911
Within a period of more than two years but not exceeding five years	<u>2,837</u>	<u>868</u>	<u>515</u>
	<u><u>7,807</u></u>	<u><u>5,415</u></u>	<u><u>4,782</u></u>

The carrying amounts of all finance lease liabilities are denominated in HKD.

- (c) As at 31 December 2012, the Group had committed banking facilities (including the finance lease facilities) of approximately HK\$23,347,000 which bore interest at 2.25% to 6.75% per annum.

As at 31 December 2013, the Group had committed banking facilities (including the finance lease facilities) of approximately HK\$28,971,000 which bore interest at 2.25% to 6.25% per annum.

As at 31 March 2014, the Group had committed banking facilities (including the finance lease facilities) of approximately HK\$28,311,000 which bore interest at 3.25% to 6.25% per annum.

As at 31 December 2012 and 2013 and 31 March 2014, the undrawn banking facilities amounted to approximately HK\$10,500,000, HK\$12,000,000 and HK\$14,000,000 respectively.

These banking facilities are secured by:

- (i) The Group's plant and machinery with an aggregate net book value of approximately HK\$6,042,000, HK\$3,748,000 and HK\$3,175,000 as at 31 December 2012 and 2013 and 31 March 2014 respectively (*Note 13*);

- (ii) The Group's motor vehicles with an aggregate net book value of approximately HK\$1,771,000, HK\$1,147,000 and HK\$844,000 as at 31 December 2012 and 2013 and 31 March 2014 respectively (*Note 13*);
- (iii) Personal guarantees given by certain directors as at 31 December 2012 and 2013 and 31 March 2014;
- (iv) Corporate guarantee provided by Grandwin, a related company of the Group, as at 31 December 2012 and 2013 and 31 March 2014;
- (v) Guarantee by The Hong Kong Mortgage Corporation Limited under the Scheme as at 31 December 2013 and 31 March 2014; and
- (vi) Guarantee by the Government of Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme as at 31 December 2012 and 2013 and 31 March 2014.

20 TRADE AND OTHER PAYABLES

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
Trade payables	5,139	5,767	3,735
Accruals and other payables	<u>3,542</u>	<u>4,225</u>	<u>3,400</u>
	<u>8,681</u>	<u>9,992</u>	<u>7,135</u>

Notes:

- (a) Payment terms granted by suppliers are 30 days from the invoice date of the relevant purchases.

The ageing analysis of trade payables based on the invoice date is as follows:

	As at 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000
0 – 30 days	2,642	2,941	1,020
31 – 60 days	446	642	368
61 – 90 days	16	30	197
Over 90 days	<u>2,035</u>	<u>2,154</u>	<u>2,150</u>
	<u>5,139</u>	<u>5,767</u>	<u>3,735</u>

- (b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
HKD	8,309	8,524	6,219
EUR	<u>372</u>	<u>1,468</u>	<u>916</u>
	<u>8,681</u>	<u>9,992</u>	<u>7,135</u>

21 AMOUNT DUE TO A SHAREHOLDER/A RELATED COMPANY

The balances are denominated in HKD. The amounts are unsecured, non-interest bearing and repayable on demand.

22 DEFERRED TAXATION

The movements in deferred tax liabilities during the Track Record Period are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>
At 1 January 2012 and 31 December 2012	–
Charged to profit or loss (<i>Note 10</i>)	<u>765</u>
At 31 December 2013 and 1 January 2014	765
Charged to profit or loss (<i>Note 10</i>)	<u>150</u>
At 31 March 2014	<u>915</u>

23 COMBINED CAPITAL

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Combined capital	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

For the purpose of the preparation of the combined statement of financial position, the balance of combined capital at 31 December 2012 and 2013 and 31 March 2014 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group prior to the Reorganisation.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 25 April 2014 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each and one share was issued thereafter. On the same date, each of Power Key and Talent Great Investments Limited ("Talent Great") further subscribed for 785 and 214 nil-paid shares, resulting them holding 786 and 214 nil-paid shares respectively, as at 25 April 2014. Pursuant to the Reorganisation and as consideration for the acquisition by the Company of the entire issued share capital of Ultimate Expert from Power Key and Talent Great respectively, on 8 May 2014, 786 and 214 nil-paid shares held by Power Key and Talent Great respectively, were credited as fully paid.

24 NOTES TO COMBINED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (Unaudited)	Three months ended 31 March 2014 HK\$'000
Profit before income tax	2,489	12,536	3,144	3,688
Adjustments for:				
Depreciation	4,871	5,696	1,154	1,419
Gain on disposal of property, plant and equipment	(23)	(44)	(22)	–
Provision for impairment on trade receivables	–	85	–	–
Provision for impairment on retention receivables	–	581	–	–
Interest expense	353	381	104	102
Operating profit before working capital changes	7,690	19,235	4,380	5,209
Decrease/(Increase) in inventories	211	(236)	597	694
Increase in trade and other receivables	(277)	(11,661)	(1,092)	(635)
Decrease/(Increase) in balances with related companies	748	(437)	(17)	(778)
(Decrease)/Increase in trade and other payables	(1,150)	2,811	(2,507)	(2,857)
Increase/(Decrease) in amount due to a shareholder	868	(3,263)	(33)	(548)
Net cash generated from operations	<u>8,090</u>	<u>6,449</u>	<u>1,328</u>	<u>1,085</u>

(b) Non-cash transactions

- (i) During the years ended 31 December 2012 and 2013 and the three months ended 31 March 2013 and 2014, additions to property, plant and equipment of approximately HK\$5,673,000, HK\$424,000, HK\$424,000 and nil were financed by finance lease arrangements respectively.
- (ii) A deed of release dated 31 March 2014 and executed by Mr. Pei in favour of Drillcut, pursuant to which Mr. Pei unconditionally and irrevocably, among other matters, released and discharged the repayment of a shareholder's loan from Mr. Pei to Drillcut in the amount of HK\$2,800,000 and any claim regarding such repayment.

25 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at each statement of financial position date not provided for in the Financial Information were as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Contracted but not provided for:			
Property, plant and equipment	–	–	3,598

(b) Operating lease commitments – Group as lessee

At each statement of financial position date, the total future minimum lease payments under non-cancellable operating lease was payable as follows:

	As at 31 December 2012 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	As at 31 March 2014 <i>HK\$'000</i>
Not later than 1 year	124	–	–

The Group is the lessee in respect of a property under operating lease. The lease typically run for an initial period of 2 years, with an option to renew the lease when all terms are renegotiated. The lease does not include contingent rentals.

26 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

- (a) The directors of the Company are of the view that the following companies that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Grandwin	A related company controlled by Mr. Pei
Vincent Engineering	A related company controlled by Mr. Pei
Power Key	A holding company of the Company

(b) Transactions with related parties

Save as disclosed in Note 19 to the Financial Information, the Group had the following transactions with related companies during the Track Record Period.

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2013 HK\$'000	Three months ended 31 March 2013 HK\$'000 (Unaudited)	Three months ended 31 March 2014 HK\$'000
Operating lease rental expense on premises paid to: (Note i)				
Grandwin	960	960	240	140
Vincent Engineering (Note ii)	<u>288</u>	<u>288</u>	<u>72</u>	<u>72</u>
Machinery rental cost paid to Grandwin (Note i)	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Purchase of machinery from Grandwin (Note i)	<u>-</u>	<u>404</u>	<u>404</u>	<u>-</u>

Notes:

- (i) In the opinion of the directors, these transactions were entered into in the normal course of business at mutually agreed prices and terms.
- (ii) During the Track Record Period, the Group rented a property from Mr. Pei and Mrs. Pei, where Vincent Engineering had been collecting the rental on their behalf.

(c) Balances with related companies

Name	Maximum balance outstanding during the		Maximum balance outstanding during the		Maximum balance outstanding during the	
	As at 31 December 2012 HK\$'000	year ended 31 December 2012 HK\$'000	As at 31 December 2013 HK\$'000	year ended 31 December 2013 HK\$'000	As at 31 March 2014 HK\$'000	period ended 31 March 2014 HK\$'000
Amounts due from:						
Grandwin	-	-	178	178	-	178
Vincent Engineering	194	343	194	194	-	194
Power Key	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,150</u>	<u>1,150</u>
	<u>194</u>		<u>372</u>		<u>1,150</u>	
Amount due to:						
Grandwin	<u>259</u>	N/A	<u>-</u>	N/A	<u>-</u>	N/A

The balances are denominated in HKD. The amounts are unsecured, non-interest bearing and repayable on demand.

- (d) Key management compensation

The emoluments of the directors and senior executives (representing the key management personnel) during the Track Record Period are disclosed in Note 8.

27 CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the end of each of the Track Record Period.

III DIRECTORS' REMUNERATION

Save as disclosed in Note 8 to this report, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2014 is expected to be approximately HK\$1,784,000.

IV SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2014:

- (a) 999 shares in Ultimate Expert were allotted and issued to Mr. Pei credited as fully paid on 10 April 2014 for repayment of the shareholder's loan in the amount of HK\$8,000,000 advanced by Mr. Pei to Ultimate Expert.
- (b) The Reorganisation as set out in Note 1 of Section II was completed on 8 May 2014.
- (c) The Company adopted a share option scheme on 2 August 2014, a summary of the terms and conditions of which are set out in the paragraph headed "Share Option Scheme" in Appendix IV "Statutory and General Information" to the Prospectus.
- (d) On 2 August 2014, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional of 1,962,000,000 shares of HK\$0.01 each.

V SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 March 2014.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Jonathan T.S. Lai
Practising Certificate Number: P04165
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountants' Report prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about how the proposed listing might have affected the net tangible assets of our Group as if the Placing had occurred on 31 March 2014. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of our Group's financial results and positions of the financial periods concerns.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Placing as if it had taken place on 31 March 2014. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group after the Placing or at any future dates.

Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 <i>HK\$'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from the placing of New Shares <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i> <i>(Note 3)</i>
Based on the Placing Price of HK\$0.40 per Share	20,619	33,847	54,466
	20,619	33,847	54,466
			0.09

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 is extracted from the accountants' report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the placing of New Shares are based on the Placing Price of HK\$0.40 per Share, after deduction of relevant estimated underwriting fees and other related fees and expenses (excluding approximately HK\$2.7 million listing-related expenses which have been accounted for prior to 31 March 2014).
3. The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in Notes 1 and 2 above and on the basis that 620,000,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus.
4. The unaudited pro forma financial information presented above does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 March 2014).

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 August 2014

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF GLORY FLAME HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Glory Flame Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma adjusted net tangible assets as at 31 March 2014 (the "Unaudited Pro Forma Financial Information") and related notes as set out in Section A of Appendix II to the prospectus issued by the Company dated 7 August 2014 (the "Prospectus"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed placing of the shares of the Company on the Group's financial position as at 31 March 2014 as if the proposed placing had taken place at 31 March 2014. As part of this process, information about the Group's financial information has been extracted by the directors from the Group's financial information for the year ended 31 March 2014, on which an accountants' report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Reporting accountants' responsibility

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Jonathan T.S. Lai
Practising Certificate Number: P04165
Hong Kong

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 25 April 2014 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the 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 therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 2 August 2014. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical

signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the 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 thereto 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 thereof, they are 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 thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the 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.

(ii) Power to dispose of the assets of the Company or any subsidiary

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 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.

(iii) 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.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

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 (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.

(v) *Disclosure of interest in contracts with the Company or with 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 therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other 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 thereof 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, either as vendor, purchaser or otherwise, 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 thereby established. 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 therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, 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 namely:

- (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 or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his close associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (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 or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) *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 amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other 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 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 (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) 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 other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such 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.

In addition, 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.

(vii) 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 appointed by the Board 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 appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will 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 who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (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 shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 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 the Board or retirement therefrom.

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. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

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 or Directors and 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.

(viii) Borrowing powers

Pursuant to the Articles, 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 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. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the 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.

(x) *Proceedings of the Board*

Subject to the Articles, 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**

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 by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the 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. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, 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 shareholder being a corporation, by its duly authorised 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.

(e) **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 thereto respectively 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; and (e) cancel shares which, at the date of the passing 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; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution – majority required

In accordance with the Articles, 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 not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under 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 defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. 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.

(g) Voting rights (generally and on a poll) 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 on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and 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 the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, 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 on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares 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 GEM Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. 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.

(i) 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 the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law 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 or book or document of the Company except as conferred by the 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 summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

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 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.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting 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 either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid 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 for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the GEM Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

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 a meeting called as 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, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Companies Law, 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 provided always that it shall be in such form prescribed by the Stock Exchange 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 in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

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 any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, 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 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 GEM Listing Rules (as defined in the Articles), 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 with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(I) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, 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.

(m) 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.

(n) 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 whereof 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; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. 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 on the share capital of the Company, 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 thereto 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 addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. 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 made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, 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.

(o) 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 an officer or attorney duly authorised. 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 use by him 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.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think 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 thereof 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 the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the 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 thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him 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 will 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 it 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 time appointed, 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.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) 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.

(s) 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.

(t) 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 shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that 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 Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members 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 shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

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.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the 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 25 April 2014 subject to the 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 Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that 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 Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in 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 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, the Companies Law provides that 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.

It is further provided by the Companies Law that, 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.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(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 acting 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. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. 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.

Under Section 37A(1) the Companies Law, 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 (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the 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 and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that 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 to the company, 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 thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;

- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of 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 thereof 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 thereon.

Moreover, 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 in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that 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 the Company keeps its books of account at any place other than at its registered office or at 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 Law (2009 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 Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that 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) in addition, that 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 Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 20 May 2014.

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 certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty 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

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law 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. The Companies Law contains 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 Law (2009 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either 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 occurs where the Company so 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; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such 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 shall be 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 has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

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 shall take 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, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are 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.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of 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 would have 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, nonetheless 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.

(q) 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 the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands 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.

(r) 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 Companies Law, is available for inspection as referred to in the section "Documents available for inspection" in Appendix V. 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 25 April 2014. Our Company has established a principal place of business in Hong Kong at Suites 2001-2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 22 May 2014. Loong & Yeung has been appointed as the authorised representative 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, it is subject to the Cayman Islands law and to our constitution, which comprises the Memorandum and the Articles. A summary of various provisions of our constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company has an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. 1 Share was allotted and issued nil-paid to the subscriber to the memorandum and articles of association of our Company on 25 April 2014, and was subsequently transferred to Power Key on the same date. On the same date, each of Power Key and Talent Great further subscribed for 785 and 214 nil-paid Shares, resulting them holding 786 and 214 nil-paid Shares respectively, as at 25 April 2014.
- (b) Pursuant to the Reorganisation and as consideration for the acquisition by our Company of the entire issued share capital of Ultimate Expert from Power Key and Talent Great respectively, on 8 May 2014, the 786 and 214 nil-paid Shares held by Power Key and Talent Great respectively, were credited as fully paid.
- (c) On 2 August 2014, Power Key and Talent Great resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$20,000,000 by the creation of an additional of 1,962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.
- (d) Immediately following completion of the Placing and the Capitalisation Issue, and taking no account any Share which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, 620,000,000 Shares will be issued fully paid or credited as fully paid, and 1,380,000,000 Shares will remain unissued.
- (e) Other than pursuant to the general mandate to issue Shares referred to in the section “Further information about our Company – Written resolutions of our Shareholders passed on 2 August 2014” in this appendix and pursuant to 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.

- (f) Save as disclosed in the sections “Share capital” in this prospectus and “Further information about our Company – Changes in share capital of our Company” in this appendix, there has been no alteration in our Company’s share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 2 August 2014

On 2 August 2014, resolutions in writing were passed by the Shareholders pursuant to which, among other things:

- (a) our Company approved and adopted the Memorandum and the Articles, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of our Company be increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each by the creation of an additional 1,962,000,000 Shares of HK\$0.01 each, each ranking pari passu with the existing Shares in all respects;
- (c) conditional on the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme) and on the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
- (i) the Placing was approved and our Directors were authorised to allot and issue the New Shares pursuant to the Placing 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 the section “Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised, 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 the 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 Placing, our Directors were authorised to capitalise an amount of HK\$5,114,990 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 511,499,000 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 2 August 2014 in proportion (as nearly as possible without involving fractions) to 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 capitalisation and distributions and the Capitalisation Issue was approved;

- (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 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 Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Placing, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or 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
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our Company may be listed 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 nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;

- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or 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 nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company 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 nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. The Reorganisation involved the following major steps:

- (a) On 21 February 2014, Power Key was incorporated in the BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. 7,455 and 2,545 fully paid shares of Power Key, in aggregate representing the then entire issued share capital of Power Key, were allotted and issued to Mr. Pei and Mrs. Pei on 24 April 2014 respectively. After the aforesaid allotment of shares, the issued share capital of Power Key was owned as to 74.55% and 25.45% by Mr. Pei and Mrs. Pei respectively.
- (b) On 19 February 2014, Talent Great was incorporated in the BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. 1 fully paid ordinary share of Talent Great, representing the then entire issued share capital of Talent Great, was allotted and issued to Ms. Pei on 24 April 2014. After the aforesaid allotment of share, the entire issued share capital of Talent Great was owned by Ms. Pei.
- (c) Our Company was incorporated on 25 April 2014 in Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One nil-paid Share was allotted and issued to the subscriber to the memorandum and articles of association of our Company, which was later transferred to Power Key on 25 April 2014. 785 and 214 nil-paid Shares were allotted and issued to Power Key and Talent Great, on 25 April 2014 respectively.

After the aforesaid allotment of Shares, the entire issued share capital of our Company was owned as to 78.6% and 21.4% by Power Key and Talent Great respectively.

- (d) On 8 January 2014, Ultimate Expert was incorporated in the BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. 1 fully paid ordinary share of Ultimate Expert was allotted and issued to Mr. Pei on 25 February 2014. 999 shares were further allotted and issued to Mr. Pei, credited as fully paid on 10 April 2014. After the aforesaid allotment of shares, the entire issued share capital of Ultimate Expert was owned by Mr. Pei.
- (e) On 29 April 2014, Power Key and Talent Great acquired 786 and 214 shares in Ultimate Expert, representing 78.6% and 21.4% of the then issued share capital of Ultimate Expert, from Mr. Pei, at a consideration of US\$786 and US\$214 in cash, respectively. After the aforesaid acquisition, the entire issued share capital of Ultimate Expert was owned as to 78.6% and 21.4% by Power Key and Talent Great respectively.
- (f) On 30 April 2014, Ultimate Expert acquired 2,929,999, 1,000,001 and 1,070,000 shares in Drillcut, representing approximately 58.6%, 20% and 21.4% of the total number of shares of Drillcut then in issue, from Mr. Pei, Mrs. Pei and Ms. Pei respectively, and in consideration of which, Ultimate Expert allotted and issued 786 and 214 shares to Power Key and Talent Great, credited as fully paid respectively, as directed by Mr. Pei, Mrs. Pei and Ms. Pei. After the aforesaid acquisition, all shares of Drillcut in issue were owned by Ultimate Expert, and Drillcut became a wholly-owned subsidiary of Ultimate Expert.
- (g) On 8 May 2014, our Company (as purchaser) entered into a sale and purchase agreement with Power Key (as vendor and warrantor), Talent Great (as vendor and warrantor), Mr. Pei (as warrantor) and Ultimate Expert, pursuant to which our Company acquired 1,572 and 428 shares in Ultimate Expert which represent, in aggregate, its then entire issued share capital, from each of Power Key and Talent Great respectively, and in consideration, the 786 and 214 nil-paid Shares held by Power Key and Talent Great respectively, were credited as fully paid. After the aforesaid share transfers, our Company held 2,000 shares in Ultimate Expert, being the entire issued share capital of Ultimate Expert, and Ultimate Expert became a wholly-owned subsidiary of our Company.

Immediately after completion of the share transfers referred to in item (g) above, our Company became the holding company of our Group.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the accountants' report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the sections “Further information about our Company – Corporate Reorganisation” in this appendix and “History and development” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our Shares by our Company.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) *Shareholders’ approval*

The GEM 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 GEM must be approved in advance by an ordinary resolution of our Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our Shareholders on 2 August 2014, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our Company may be listed 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 nominal amount of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Repurchase Mandate shall remain in effect until whichever is 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 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*

Any repurchase by our Company 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 GEM Listing Rules. Our Company may not repurchase its own Shares on GEM 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 proceeds 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 GEM Listing Rules prohibit our Company from knowingly repurchasing our Shares on GEM from a "core connected person" (as defined in the GEM Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company on GEM.

(b) Exercise of the Repurchase Mandate

On the basis of 620,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue, our Directors would be authorised under the Repurchase Mandate to repurchase up to 62,000,000 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 its 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 our Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM 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 (as defined in the GEM Listing Rules) of any Director, 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 GEM Listing Rules, the Articles and the applicable law and regulations from time to time 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 listing 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 our 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 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules). No core connected person (as defined in the GEM Listing Rules) has notified our Company that he/she 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 THE 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 our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

- (a) an instrument of transfer dated 3 March 2014 and entered into between Mr. Bay Wing Wo (as transferor) and Mr. Pei (as transferee) pursuant to which Mr. Pei acquired 70,000 shares of Drillcut in issue from Mr. Bay Wing Wo at a consideration of HK\$70,000;
- (b) bought and sold notes dated 3 March 2014 executed by Mr. Bay Wing Wo (as seller) and Mr. Pei (as buyer) for the transfer of 70,000 shares of Drillcut in issue as referred to in item (a) above;
- (c) a deed of release dated 31 March 2014 and executed by Mr. Pei in favour of Drillcut, pursuant to which Mr. Pei unconditionally and irrevocably, among other matters, released and discharged the repayment of a shareholder's loan, which was advanced by Mr. Pei to Drillcut in the amount of HK\$2,800,000, and any claim regarding such repayment;
- (d) a sales and purchase agreement dated 29 April 2014 entered into between Mr. Pei (as vendor), Power Key (as purchaser) and Talent Great (as purchaser), pursuant to which Power Key and Talent Great acquired 786 and 214 shares of Ultimate Expert, representing 78.6% and 21.4% of the then issued share capital of Ultimate Expert, from Mr. Pei at a consideration of US\$786 and US\$214 in cash respectively;
- (e) an instrument of transfer dated 29 April 2014 and entered into between Mr. Pei (as transferor) and Power Key (as transferee) for the transfer of 786 shares of Ultimate Expert as referred to in item (d) above;
- (f) an instrument of transfer dated 29 April 2014 and entered into between Mr. Pei (as transferor) and Talent Great (as transferee) for the transfer of 214 shares of Ultimate Expert as referred to in item (d) above;
- (g) a sales and purchase agreement dated 30 April 2014 entered into between Mr. Pei (as vendor), Mrs. Pei (as vendor), Ms. Pei (as vendor) and Ultimate Expert (as purchaser), pursuant to which Ultimate Expert acquired 2,929,999, 1,000,001 and 1,070,000 shares of Drillcut, representing approximately 58.6%, 20% and 21.4% of the total number of shares of Drillcut then in issue, from Mr. Pei, Mrs. Pei and Ms. Pei respectively, and in consideration of which, Ultimate Expert allotted and issued 786 and 214 shares to Power Key and Talent Great respectively, credited as fully paid as directed by Mr. Pei, Mrs. Pei and Ms. Pei;


- (h) an instrument of transfer dated 30 April 2014 and entered into between Mr. Pei (as transferor) and Ultimate Expert (as transferee) for the transfer of 2,929,999 shares of Drillcut as referred to in item (g) above;
- (i) bought and sold notes dated 30 April 2014 executed by Mr. Pei (as seller) and Ultimate Expert (as buyer) for the transfer of 2,929,999 shares of Drillcut as referred to in item (g) above;
- (j) an instrument of transfer dated 30 April 2014 and entered into between Mrs. Pei (as transferor) and Ultimate Expert (as transferee) for the transfer of 1,000,001 shares of Drillcut as referred to in item (g) above;
- (k) bought and sold notes dated 30 April 2014 executed by Mrs. Pei (as seller) and Ultimate Expert (as buyer) for the transfer of 1,000,001 shares of Drillcut as referred to in item (g) above;
- (l) an instrument of transfer dated 30 April 2014 and entered into between Ms. Pei (as transferor) and Ultimate Expert (as transferee) for the transfer of 1,070,000 shares of Drillcut as referred to in item (g) above;
- (m) bought and sold notes dated 30 April 2014 executed by Ms. Pei (as seller) and Ultimate Expert (as buyer) for the transfer of 1,070,000 shares of Drillcut as referred to in item (g) above;
- (n) a sales and purchase agreement dated 8 May 2014 entered into between Power Key (as vendor and warrantor), Talent Great (as vendor and warrantor), our Company (as purchaser), Mr. Pei (as warrantor) and Ultimate Expert, pursuant to which our Company acquired 1,572 and 428 shares of Ultimate Expert which represent, in aggregate, its then entire issued share capital, from each of Power Key and Talent Great respectively, and in consideration, the 786 and 214 nil paid Shares held by Power Key and Talent Great respectively, were credited as fully paid;
- (o) an instrument of transfer dated 8 May 2014 and entered into between Power Key (as transferor) and our Company (as transferee) for the transfer of 1,572 shares of Ultimate Expert as referred to in item (n) above;
- (p) an instrument of transfer dated 8 May 2014 and entered into between Talent Great (as transferor) and our Company (as transferee) for the transfer of 428 shares of Ultimate Expert as referred to in item (n) above;
- (q) a deed of indemnity dated 2 August 2014 and executed by Mr. Pei, Mrs. Pei and Power Key, in favour of our Company (for itself and on behalf of its subsidiaries) containing indemnities referred to in the section “Other information – Tax and other indemnities” in this appendix;

- (r) a deed of non-competition dated 2 August 2014 and executed by Mr. Pei, Mrs. Pei and Power Key in favour of our Company (for itself and on behalf of its subsidiaries), details of which are set out in the section “Relationship with our Controlling Shareholders – Deed of Non-competition” in this prospectus; and
- (s) the Underwriting Agreement.

2. Intellectual Property Rights of our Group

(a) Trademark

As at the Latest Practicable Date, our Group has applied for registration of the following trademark:

Trademark	Class(es)	Application Number	Place of Application	Name of applicant
	37	302959624	Hong Kong	Ultimate Expert

(b) Domain name

As at the Latest Practicable Date, our Group is the owner of the following domain name which is material to the business of our Group:

Registered owner	Domain name	Registration date	Expiry date
Drillcut	drillcut.com.hk	6 July 2006	7 July 2015

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of Interests

(a) *Interests of Directors and chief executive in our Shares, underlying Shares and debentures of our Company and its associated corporations*

So far as our Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue, but taking no account any Shares which may be issued upon the exercise of 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 listed on GEM, 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Long position in our Shares*

Name of Director	Capacity/Nature	Number of Shares held/ interested in	Approximate percentage of shareholding
Mr. Pei (<i>Note 1</i>)	Interest in controlled corporation	355,539,000	57.35%
Ms. Pei (<i>Note 2</i>)	Interest in controlled corporation	109,461,000	17.65%

Notes:

1. Mr. Pei beneficially owns Power Key as to 74.55% and is deemed, or taken to be, interested in all our Shares held by Power Key for the purposes of the SFO. Mr. Pei is an executive Director, the chairman of our Company and the sole director of Power Key.
2. Ms. Pei beneficially owns Talent Great as to 100% and is deemed, or taken to be, interested in all our Shares held by Talent Great for the purposes of the SFO. Ms. Pei is an executive Director and the sole director of Talent Great.

(ii) *Long position in the ordinary shares of associated corporations*

Name of Director	Name of associated corporation	Capacity/ Nature	No. of shares held/ interested in	Percentage of Interest
Mr. Pei	Power Key	Beneficial owner	7,455	74.55%

(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 any Shares which may be issued pursuant to exercise of 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 Placing and the Capitalisation Issue, have interests or short positions in 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 any other member of our Group:

Name	Capacity/Nature	Number of Shares held/ interested in	Approximate percentage of shareholding
Mrs. Pei (<i>Note 1</i>)	Interest of spouse	355,539,000	57.35%
Mr. Choi Chi Chung (<i>Note 2</i>)	Interest of spouse	109,461,000	17.65%
Power Key	Beneficial owner	355,539,000	57.35%
Talent Great	Beneficial owner	109,461,000	17.65%

Note:

- Mrs. Pei is the spouse of Mr. Pei and is deemed, or taken to be, interested in all 355,539,000 Shares in which Mr. Pei is interested for the purposes of the SFO.
- Mr. Choi Chi Chung is the spouse of Ms. Pei and is deemed, or taken to be, interested in all 109,461,000 Shares in which Ms. Pei is interested for the purposes of the SFO.

2. Particulars of service contracts

None of our Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

- The aggregate remuneration paid by our Group to our Directors for each of the two financial years ended 31 December 2012 and 2013 were approximately HK\$1.5 million.
- Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the financial year ending 31 December 2014 will be approximately HK\$1.7 million.

- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

Executive Directors	<i>HK\$</i>
Mr. Pei	936,000
Ms. Pei	936,000
Independent non-executive Directors	<i>HK\$</i>
Prof. Lam Sing Kwong Simon	120,000
Mr. Law Yiu Sing	120,000
Ms. Wong Wai Ling	120,000

4. Agency fees or commissions received

Save as disclosed in the section “Underwriting – Commission and expenses” in this prospectus, and in the section “Other information – Sponsor” in this appendix, none of our Directors or the experts named in the section “Other information – Qualifications of experts” in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 26 to the accountants’ report of our Group as set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in the section “Further information about our Company” in this appendix, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Placing and the Capitalisation Issue, have an interest or short position in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any 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 its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on GEM;
- (c) none of our Directors or the experts named in the section “Other information – Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, 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 our Directors or the experts named in the section “Other information – Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of our Directors or the experts named in the section “Other information – 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 (as defined under the GEM Listing Rules) 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) none of our Directors has any existing or proposed service contracts with 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) 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 2 August 2014. The following is a summary of the principal terms of the Share Option Scheme but such summary 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 23 of the GEM Listing Rules.

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	2 August 2014, the date on which the Share Option Scheme is conditionally adopted by our Shareholders by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the Business Day immediately preceding the tenth anniversary thereof, unless terminated earlier in accordance with the terms of the Share Option Scheme

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of the Shareholders passed on 2 August 2014:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (fulltime and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and services providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or services provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

(v) Maximum number of Shares

- (aa) subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 62,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 62,000,000 Shares from time to time) to the participants under the Share Option Scheme.

- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the GEM Listing Rules in this regard.
- (cc) our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the GEM Listing Rules.
- (dd) The aggregate 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 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to a Director, chief executive or Substantial Shareholder, or any of their respective associates

- (aa) Any grant of an option to a Director, chief executive or Substantial Shareholder (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a Substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
 - (i) representing in aggregate over 0.1% of our Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the GEM Listing Rules in this regard. The grantee, his associates and all core connected persons of our Company shall abstain from voting (except where any of such persons intends to vote against the proposed grant). Any change in the terms of an option granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

- (aa) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the GEM Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and

(ii) the deadline for our Company to publish an announcement of the results for any year, half-year or quarterly under the GEM Listing Rules, or other interim period (whether or not required under the GEM Listing Rules).

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published and:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the 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.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of six months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the GEM Listing Rules, or any guideline or supplemental guideline issued by the Stock

Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and, or any persons controlled by the offeror and, or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“Suspension Date”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as

practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 23.03 of the GEM Listing Rules shall not be made except with the prior approval of our Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the GEM Listing Rules and the notes thereto and the supplementary guidance on the interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) or any guidelines issued by the Stock Exchange from time to time.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Division of the Stock Exchange granting the listing of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Division for listing of and permission to deal in 62,000,000 Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION**1. Tax and other indemnities**

Mr. Pei, Mrs. Pei and Power Key (collectively, the “Indemnifiers”) have, under a deed of indemnity referred to in item (q) of the section “Further information about the business – Summary of material contracts” in this appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries as a result or otherwise arising from, whether directly or indirectly, and/or in connection with, among other things,

- (a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the Placing becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which the Placing becomes unconditional;
- (b) any liability for Hong Kong estate duty which is or hereafter become payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Placing becomes unconditional;
- (c) the implementation of the Reorganisation and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Placing becomes unconditional;
- (d) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal

proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Placing becomes unconditional; and

- (e) any non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the date on which the Placing becomes unconditional.

The Indemnifiers will, however, not be liable under the deed of indemnity to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company for the Track Record Period; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Placing becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of any members of our Group after 31 March 2014 up to and including the date on which the Placing becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

Save as disclosed in the section “Business – Litigation and claims” in this prospectus, no member of our Group is 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 against any member of our Group.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Division for listing 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 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 6A.07 of the GEM Listing Rules.

Sponsor’s fees

We agreed to pay the Sponsor a fee of HK\$4 million, which relates solely to services provided by the Sponsor in the capacity of sponsor.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$42,200 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Messis Capital Limited	A licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
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HLB Hodgson Impey Cheng Limited	Certified Public Accountants
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Appleby	Cayman Islands attorneys-at-law
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Chan Chung	Barrister-at-law of Hong Kong
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7. Consents of experts

Each of Messis Capital Limited, HLB Hodgson Impey Cheng Limited, Appleby and Chan Chung has given and has not withdrawn its/his written consents to the issue of this prospectus, with the inclusion of its/his letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its/his name included herein in the form and context in which they respectively appear.

8. Binding effect

This prospectus 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 (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Appleby Trust (Cayman) Ltd. and a branch register of members of our Company will be maintained by Tricor Investor Services Limited. 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 Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

10. No material adverse change

Save for the expenses of approximately HK\$12.2 million estimated to be incurred in connection with the Listing, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 31 March 2014 (being the date to which the latest audited financial statements of our Group were made up) and up to the date of this prospectus, and there is no event since 31 March 2014 which would materially affect the information shown in our combined financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

11. Particulars of the Selling Shareholder

The following are particulars of the Selling Shareholder:

Name	Description	Address	Number of Sale Shares
Power Key	a company incorporated in BVI	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	46,500,000

12. 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 our 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 our Shares. It is emphasised that none of our Company, our Directors or parties involved in the Placing 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

- (a) Save as disclosed in this prospectus:
- (i) Within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) 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 capital of our Company or any of our subsidiaries;
 - (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
 - (ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (ii) 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 prospectus;
 - (iii) none of Messis Capital Limited, HLB Hodgson Impey Cheng Limited, Appleby and Chan Chung:
 - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including our Shares; or
 - (bb) 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;
 - (iv) our Company and 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;
 - (v) our Directors have been advised that, under Cayman Islands laws, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands laws;

- (vi) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (vii) our Group has no outstanding convertible debt securities; and
- (viii) the English text of this prospectus shall prevail over the Chinese text.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the section “Other information – Consents of experts” in Appendix IV to this prospectus, copies of the material contracts referred to in the section “Further Information about the business – Summary of material contracts” in Appendix IV to this prospectus and a list containing particulars of the Selling Shareholder referred to in the section “Other information – Particulars of the Selling Shareholder” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Loong & Yeung of Suites 2001-2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants’ report prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in the section “Report on unaudited pro forma financial information” in Appendix II to this prospectus;
- (d) the audited statutory financial statements of the companies comprising our Group for each of the two financial years ended 31 December 2013 or for the period from their respective dates of incorporation to 31 December 2013 where there is a shorter period;
- (e) the material contracts referred to in the section “Further Information about the business – Summary of material contracts” in Appendix IV to this prospectus;
- (f) the service agreements referred to in the section “Further information about Substantial Shareholders, Directors and experts – Particulars of service contracts” in Appendix IV to this prospectus;
- (g) the rules of the Share Option Scheme referred to in the section “Share Option Scheme” in Appendix IV to this prospectus;
- (h) the written consents referred to in the section “Other information – Consents of experts” in Appendix IV to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (i) the list containing the particulars of the Selling Shareholder as set out in the section “Other information – Particulars of the Selling Shareholder” in Appendix IV to this prospectus;
- (j) the Companies Law;
- (k) the letter prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus; and
- (l) the letter of advice prepared by the Legal Counsel dated the date of this prospectus.

Glory Flame Holdings Limited
朝威控股有限公司