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Application Proof of

**迪臣建設國際集團有限公司**  
**Deson Construction International Holdings Limited**  
*(incorporated in the Cayman Islands with limited liability)*

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**IMPORTANT**

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



**迪臣建設國際集團有限公司**  
**Deson Construction International Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

Stock code: [REDACTED]

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

Sponsor

**SUNWAH KINGSWAY**  
**新華滙富**

**Kingsway Capital Limited**

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This document is published in connection with the listing by way of introduction on the Growth Enterprise Market of the Stock Exchange of the entire issued share capital of Deson Construction International Holdings Limited (the “Company”). This document contains particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) solely for the purpose of giving information with regard to the Company and its subsidiaries.

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

Your attention is drawn to the section headed “Risk factors” in this document.

Information regarding the proposed arrangement for the listing of, and dealings and settlement of dealings in, the Shares following completion of the Spin-off is set out in the section headed “Information about this listing document and the Introduction” in this document.

[REDACTED]

## **CHARACTERISTICS OF GEM**

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**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.**

**EXPECTED TIMETABLE** *(Note 1)*

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[REDACTED]

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*We have not authorised anyone to provide you with information which is different from that contained in this document. Any information or representation not made in this document must not be relied upon by you as having been authorised by us, the Sponsor, any of our respective Directors or any other person or party involved in the Introduction.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk factors” of this document. You should read that section carefully before you decide to invest in our Shares.*

### OUR BUSINESS AND OPERATIONS

#### Overview

We are principally engaged as a contractor in the building industry operating in Hong Kong and the PRC. In the highly competitive building industry, we are ranked ninth among contractors in Hong Kong providing building construction works, electrical and mechanical engineering works and fitting-out works in terms of revenue and have approximately 0.6% market share in terms of the total industry revenue for the 12 months ended 31 December 2013 according to the Industry Report. We serve our clients through our main office in Hong Kong and the PRC offices in Beijing and Shanghai. We may also provide limited ad-hoc services to our customers in other geographic markets from time to time where feasible. Set out below is a summary of our revenue during the Track Record Period by geographic region:

	<b>For the year ended 31 March</b>		<b>2013</b>		<b>2014</b>	
	<i>HK\$‘ 000</i>	%	<i>HK\$‘ 000</i>	%	<i>HK\$‘ 000</i>	%
Hong Kong	391,168	72.4	644,825	78.1		
PRC	149,058	27.6	158,331	19.2		
Macau	—	—	22,223	2.7		
<b>Total:</b>	<b><u>540,226</u></b>	<b><u>100.0</u></b>	<b><u>825,379</u></b>	<b><u>100.0</u></b>		

As a contractor, we provide one-stop comprehensive services with the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering works; and (c) alterations, addition, renovation, refurbishment and fitting-out works. For further details about these services, please refer to the section headed “Business — Our business and operations” starting from page 100 of this document. The following table sets out a breakdown of our total revenue during the Track Record Period according to our three major types of services:

	<b>For the year ended 31 March</b>		<b>2013</b>		<b>2014</b>	
	<i>HK\$‘000</i>	%	<i>HK\$‘000</i>	%	<i>HK\$‘000</i>	%
Building construction works	135,982	25.2	235,084	28.5		
Electrical and mechanical engineering works	160,544	29.7	270,691	32.8		
Fitting-out works	243,700	45.1	319,604	38.7		
<b>Total:</b>	<b><u>540,226</u></b>	<b><u>100.0</u></b>	<b><u>825,379</u></b>	<b><u>100.0</u></b>		

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## SUMMARY

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We have extensive experience and established connections through our over 20 years in the building industry. Over the years, we have served as a contractor in a number of notable construction projects in Hong Kong including construction of luxury houses at 10 Pollock’s Path of the Peak, construction of a sewage treatment plant in Ngong Ping, New Territory, re-development of part of a theme park and various educational establishments.

We generally identify potential projects (i) through receiving letter of invitations to tender or otherwise becoming aware of open tenders; or (ii) request for quotations from our customers or their agents. However in both cases, customers commonly take into account such factors such as reputation, track record and contractors on the government’s list of approved contractors and approved specialist contractors. We have a number of licenses, permits and qualifications (please refer to section headed “Business — Major licenses, permits and qualifications” starting from page 135 of this document). During the Track Record Period, contracts with all of our top five customers were obtained through competitive tendering. Our success rates for tender were approximately 31% and approximately 28% for the years ended 31 March 2013 and 2014.

### Customers

During the Track Record Period, we mainly served customers from the private sector in Hong Kong and the PRC and the public sector in Hong Kong. Customers from the private sector include property re-developers, luxury brand shop operators, building owners, operators of department stores and educational establishments. Customers from the public sector include departments of the HK Government (including a department responsible for electrical and mechanical services and another department responsible for architectural services) and semi-government bodies such as Hong Kong authorities with substantial government investment or influence.

For each of the years ended 31 March 2013 and 2014, our top five customers accounted for approximately 52.8% and 54.4% of our total revenue respectively while our single largest customer accounted for approximately 13.6% and 15.0% of the our total revenue respectively. During the Track Record Period, our revenue contribution by sector of our customers is set out below:

	For the year ended 31 March			
	2013		2014	
	HK\$‘000	%	HK\$‘000	%
Private sector	425,414	78.7	689,254	83.5
Public sector	<u>114,812</u>	<u>21.3</u>	<u>136,125</u>	<u>16.5</u>
<b>Total:</b>	<b><u>540,226</u></b>	<b><u>100.0</u></b>	<b><u>825,379</u></b>	<b><u>100.0</u></b>

### Suppliers and sub-contractors

Our suppliers include suppliers of materials (such as concrete, steel reinforcement, cables and switch boards) and service providers (such as our sub-contractors). Our top five suppliers during the Track Record Period are all sub-contractors and Independent Third Parties. For the years ended 31

## **SUMMARY**

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March 2013 and 2014, our purchases of services from the five largest suppliers were approximately 44.0% and approximately 30.6% respectively of the total purchases from all suppliers, while our purchases from the largest supplier were approximately 14.0% and approximately 11.6% respectively of the total purchases from all suppliers. No long term contracts had been entered into between our Group and its top five suppliers during the Track Record Period.

Depending on the cost effectiveness of using sub-contractors, the availability of our internal resources, the relevant licensing or specialist requirements and level of complexity of the works, we may sub-contract our works to sub-contractors. For the years ended 31 March 2013 and 2014, sub-contracting sums incurred by us amounted to approximately HK\$484.4 million and approximately HK\$694.7 million respectively, representing approximately 96.1% and approximately 89.3% of our total cost of sales over the same period.

We generally maintained multiple suppliers for services and products to avoid over-reliance on a single or a few suppliers and did not experience any material difficulties in sourcing materials or finding sub-contractors during the Track Record Period. We are careful in choosing our suppliers and maintain a list of approved suppliers and sub-contractors which is updated from time to time. As at the Latest Practicable Date, our list of approved suppliers had over 700 suppliers and sub-contractors including over 300 suppliers of materials and equipment and over 400 sub-contractors.

### **COMPETITIVE STRENGTHS**

We believe the following competitive strengths contribute to our continued success and potential for growth:

- Established operating history and track record in the building industry
- Leadership under a stable and experienced management team
- One-stop comprehensive building construction contracting services
- Strong and established business relationship with our sub-contractors
- Established and stringent safety and quality management systems
- Effective tendering process and cost control management

For further details of these competitive strengths, please refer to section headed “Business — Competitive strengths” starting from page 97 of this document.

### **CORPORATE STRATEGIES**

Our business objectives are to achieve sustainable growth in our current business and to create long-term shareholder’s value by mainly focusing on the Hong Kong and PRC markets in the near term. We intend to achieve this by implementing the following corporate strategies: (i) strengthen our position in the Hong Kong market; (ii) further expand our business into the PRC; and (iii) continue to expand our scope of services in building construction works.

## **SUMMARY**

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### **MAJOR RISK FACTORS**

The list below sets forth the major risk factors in relation to our operations:

#### *Risks relating to our business*

- There is no assurance that we will be eligible for or succeed in the tender process.
- Changes in the social, political and economic landscape of Hong Kong and the PRC may materially affect our business.
- Our revenue is mostly derived from non-recurring projects. Our results may therefore vary from time to time.
- There is no guarantee that our customers will make payments or return retention monies on time, which may affect our financial condition.
- We derived a significant percentage of our revenue from our major customers and if they choose not to engage us in the future, our results may be affected.
- Majority of our service contracts with customers have a fixed and pre-determined service fee. Our profitability may be adversely affected if we suffer from cost overrun or if our contracts are earlier terminated.
- We may fail to obtain or renew the requisite licenses, permits or qualifications or otherwise fail to satisfy their requirements from time to time. This will affect our ability to get future projects.
- We may fail to exercise sufficient control over our employees and sub-contractors and therefore fail to prevent accidents and breaches of law.
- We are exposed to disputes and claims relating to late delivery, personal injuries and other matters.

#### *Risks relating to our industry*

- We operate in a highly competitive industry.
- There is a material shortage of skilled workers in the building industry in Hong Kong. If we are unable to retain or replace such workers, it may affect our business and there is no assurance that our labour costs will not increase.

The above risks are not the only significant risks relating to our Group. A detailed discussion of the aforesaid and other risk factors is set out in the section headed “Risk factors” starting from page 21 of this document.

## **SUMMARY**

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### **LEGAL AND COMPLIANCE**

#### *Litigation and claims*

As at the Latest Practicable Date, we are a party to certain litigations and claims in respect of, among others, employees’ compensation claim and personal injuries claim. Our Directors are of the view that occurrence of personal injuries is not uncommon in the building industry. All of the outstanding claims are being handled by our Group’s insurance companies. Our Directors believe that such claims are well covered by insurance and would not result in any material impact on the financial position or results and operations of our Group. Please refer to the section “Business — Litigation and claims” starting from page 137 of this document for further information.

#### *Breach of safety regulations*

During the Track Record Period and up to the Latest Practicable Date, we were involved in six cases for breaches of construction safety regulations. The nature of such breaches were all in regards to failure to take adequate or reasonable steps in relation to certain safety precautions for employees of our sub-contractors. As at the Latest Practicable Date, five of such cases were fully settled with the total fines paid was HK\$66,000 and one remaining on-going case. Please refer to the section “Business — Workplace safety — Workplace safety breaches involving employees of our sub-contractors” starting from page 128 of this document for further information.

### **SUMMARY OF FINANCIAL INFORMATION**

The following tables present a summary of our financial information during the Track Record Period and should be read in conjunction with our financial information included in the Accountants’ Report set forth in Appendix I of this document, including the notes thereto. Please refer to the section headed “Financial information” starting on page 141 of this document for further breakdown and information.

#### **Highlight of our combined statements of profit or loss and other comprehensive income**

	<b>For the year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	540,226	825,379
Cost of sales	(504,142)	(778,333)
Gross profit	36,084	47,046
Profit before tax	10,434	20,360
Profit for the year	7,274	15,952
Total comprehensive income for the year	47,030	25,035

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**SUMMARY**

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**Revenue and gross profit margin by segments**

We are principally engaged as a contractor in the building industry operating in Hong Kong and the PRC. Our revenue for the Track Record Period was generated from the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering works; and (c) alterations, addition, renovation, refurbishment and fitting-out works.

The following table sets forth the breakdown of our revenue and gross profit margin derived from these types of services during the Track Record Period:

	<b>For the year ended 31 March</b>					
	<b>2013</b>			<b>2014</b>		
	<i>Revenue</i>	<i>Gross Profit</i>	<i>Gross Profit Margin</i>	<i>Revenue</i>	<i>Gross Profit</i>	<i>Gross Profit Margin</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Building construction works	135,982	7,576	5.6%	235,084	10,435	4.4%
Electrical and mechanical engineering works	160,544	10,147	6.3%	270,691	11,125	4.1%
Fitting-out works	<u>243,700</u>	<u>18,361</u>	<u>7.5%</u>	<u>319,604</u>	<u>25,486</u>	<u>8.0%</u>
	<u>540,226</u>	<u>36,084</u>	<u>6.7%</u>	<u>825,379</u>	<u>47,046</u>	<u>5.7%</u>

For the year ended 31 March 2014, our revenue was approximately HK\$825.4 million, representing an increase of approximately HK\$285.2 million or approximately 52.8% from approximately HK\$540.2 million for the year ended 31 March 2013. For the year ended 31 March 2014, we completed more contracts with a higher aggregate contract sum comparing to that of the corresponding period.

Our gross profit was approximately HK\$36.1 million and approximately HK\$47.0 million respectively, resulting in gross profit margin of approximately 6.7% and approximately 5.7% respectively for the years ended 31 March 2013 and 2014. The decrease in gross profit margin was mainly due to the increase in sub-contracting fees paid for the year ended 31 March 2014. The increase in sub-contracting fee reflected the increase in labour cost and material cost incurred by sub-contractors during the period.

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## SUMMARY

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### Highlight of certain items of our combined statements of financial position

	As at 31 March	
	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	147,946	154,725
Current assets	1,051,070	1,135,072
Current liabilities	915,811	999,948
Net current assets	135,259	135,124
Total assets less current liabilities	283,205	289,849
Non-current liabilities	56,811	38,085
Net assets	226,394	251,764

### Summary of financial ratios

	As at 31 March	
	2013	2014
Current ratio	1.1	1.1
Gearing ratio	43.4%	34.1%
Trade receivables turnover days	38.3	30.5
Trade payables turnover days	22.4	21.1

	For the year ended 31 March	
	2013	2014
Return on equity	3.5%	6.5%
Return on total assets	0.6%	1.2%
Interest coverage	187.3	926.5

### Unaudited pro forma financial information

[REDACTED]

## **SUMMARY**

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[REDACTED]

### **RECENT DEVELOPMENTS**

#### **Operations and financial position**

Subsequent to 31 March 2014, we have been awarded with six new tenders of contract value over HK\$1 million. These six contracts have an aggregate contract sum of approximately HK\$163.3 million with one contract mainly relating to fitting-out works and five contracts mainly relating to electrical and mechanical engineering works.

Given the positive trends and opportunities in the building industry as set out in the section headed “Industry overview” starting from page 44 of this document, our tender success rate in the past and our background and experience and our continuous efforts to seek new tenders as part of our normal operations, our Directors believe that we will continue to grasp new opportunities for works in the building industry.

#### **Dividends and dividend policy**

Immediately before Listing and as part of the Reorganisation, our Company will declare a special dividend to Deson Development Holdings, and Deson Development Holdings will use the amount received from the dividend to pay for and set off against part of the net amount due by Deson Development Holdings to our Company. All the remaining outstanding inter-company balance due from Deson Development Holdings to our Company will then be settled in cash.

## **SUMMARY**

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Our Company does not have any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the decision by the Board and will depend on, among other things, the earnings, financial condition, cash requirements and availability, the availability of funds to meet the financial covenants of our Group’s bank loans and any other factors that our Directors may consider relevant.

### **Listing expenses**

Our estimated listing expenses primarily consist of legal and professional fees in relation to the Reorganisation and the Listing. The total amount of listing expenses in connection with the Listing is estimated to be approximately HK\$14.4 million, expected to be charged to the combined statements of profit or loss of our Group for the year ending 31 March 2015. No listing expenses will be capitalised for listing by way of introduction. The estimated listing expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Group upon the completion of the Listing.

### **Pre-Listing investor**

On 1 August 2014, Latest Ventures entered into a subscription agreement with Huge Energy Holdings Limited (“**HEHL**”), an Independent Third Party, pursuant to which Latest Ventures agreed to issue and allot to HEHL and HEHL agreed to subscribe 99 fully-paid shares of Latest Ventures representing approximately 9.9% of the issued share capital of Latest Ventures, a total cash consideration of HK\$12,450,000. Immediately following completion of the Reorganisation, the Spin-off and Listing, HEHL will hold approximately 9.9% of the total issued share capital of our Company. Please refer to the section headed “History, Reorganisation and corporate structure — Pre-Listing strategic investment” starting on page 83 of this listing document for further details of HEHL’s background and its investment.

## **RELATIONSHIP WITH THE REMAINING DDIHL GROUP**

### **Shareholders’ information**

DDIHL is our Controlling Shareholder and it will be interested in approximately [REDACTED]% of our issued share capital upon completion of the Reorganisation and the Distribution. After Listing, DDIHL and its associates are interested in certain exempt continuing connected transactions, particulars of which are set out in the section headed “Connected transactions” starting from page 199 of this document including the leasing of certain office space by our Company from the Remaining DDIHL Group in Hong Kong and Shanghai, the PRC, as well as the provision of certain administrative support services such as cleaning services and information technology support services by our Group to the Remaining DDIHL Group.

## **SUMMARY**

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### **Focus of the Remaining DDIHL Group**

DDIHL was incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange (Main Board, stock code: 00262) since 10 June 1997. Following completion of the Spin-off, the Remaining DDIHL Group will be principally engaged in the business of (i) property development and investment; (ii) trading of medical equipment and home security and automation products, and provision of related installation and maintenance services; and (iii) trading of various granite and marble products, stone slabs and products for construction market, whereas our Group will focus on the Construction and Engineering Contracting Business. Based on the analysis set out the section headed “Relationship with our Controlling Shareholder — Independence from the Controlling Shareholder” starting from page 183 of this document, we believe that, after the Listing, our Company can carry on business independently of the Remaining DDIHL Group.

### **SPIN-OFF AND INTRODUCTION**

On 7 August 2014, DDIHL submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. On 2 September 2014, DDIHL obtained the confirmation from the Stock Exchange that it may proceed with the proposal. The Spin-off will be implemented in accordance with the Listing Rules including Practice Note 15 of the Listing Rules. As the Spin-off will be by way of the Distribution alone, the Spin-off will not be a transaction by DDIHL and accordingly there will be no requirement to comply with the notification or shareholders’ approval requirements of Chapter 14 of the Listing Rules.

The Introduction is conditional on the board of directors of DDIHL declaring an interim dividend by way of the Distribution and subject to the fulfillment of the conditions that, amongst other things, the Stock Exchange grants the listing of, and permission to deal in, our Shares on GEM. If such conditions are not satisfied, the Distribution will not be made and the Introduction will not take place, in which case an announcement will be made.

### **NO MATERIAL ADVERSE CHANGES**

Save for the estimated non-recurring Listing expenses, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in financial or trading position or prospects of our Group since 31 March 2014, being the date on which the latest financial information of our Group was reported in the accountants’ report included in Appendix I to this document.

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## DEFINITIONS

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*In this document, the following expressions shall have the meanings set out below unless the context requires otherwise. Certain other terms are explained in the section headed “Glossary of technical terms” of this document.*

“Articles” or “Articles of Association”	the articles of association of our Company, adopted on [●] and as amended from time to time, a summary of which is contained in Appendix III to this document
“associate(s)” or “close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Beijing Chang-de”	北京長迪建築裝飾工程有限公司 (Beijing Change-de Architectural & Decoration Co., Limited), a limited liability company established in the PRC on 19 March 1990 and a non-wholly owned subsidiary of our Company upon completion of the Reorganisation
“Board” or “Board of Directors”	the board of Directors
“Building Department”	the Building Department of the HK Government
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Colton Ventures”	Colton Ventures Limited, a company incorporated in the BVI on 19 June 2014 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation

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## **DEFINITIONS**

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“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified 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, supplemented or otherwise modified from time to time
“Companies Ordinance (Miscellaneous Provisions)”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) which came into effect on 3 March 2014 as amended, supplemented or otherwise modified from time to time
“Company”, “the Company” or “our Company”	Deson Construction International Holdings Limited (迪臣建設國際集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 18 July 2014
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“connected transactions”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules, and in the context of this document unless the context otherwise requires, means DDIHL
“Construction and Engineering Contracting Business”	the construction and engineering contracting business of our Group, where our Group acts as a contractor in the provision of (a) building construction mainly in Hong Kong; (b) electrical and mechanical engineering works services mainly in Hong Kong; and (c) alterations, addition, renovation, refurbishment and fitting-out work services mainly in Hong Kong and the PRC
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
“DDIHL”	Deson Development International Holdings Limited (迪臣發展國際集團有限公司*), an exempted company incorporated in Bermuda with limited liability on 20 September 1993 and the shares of which are listed on the Stock Exchange (Main Board, stock code: 00262), which is the Controlling Shareholder of the Company and is a connected person of the Company
“DDIHL Group”	DDIHL and its subsidiaries before the Distribution, which includes our Group

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## **DEFINITIONS**

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“DDIHL Overseas Shareholder(s)”	DDIHL Shareholder(s) whose addresses appear on the register of member of DDIHL at the close of business on the Distribution Record Date and are in jurisdictions outside of Hong Kong
“DDIHL Qualifying Shareholders”	DDIHL Shareholders on the register of member of DDIHL at the close of business on the Distribution Record Date other than the DDIHL Overseas Shareholders
“DDIHL Shareholders”	holder(s) of DDIHL Shares
“DDIHL Shares”	common share(s) of HK\$0.10 each in the share capital of DDIHL
“Deed of Indemnity”	the deed of indemnity dated [●] entered into by the Controlling Shareholder in favour of the Group as further detailed in the section headed “D. Other information — 1. Estate duty, tax and other indemnities” in Appendix IV to this document
“Deson Construction Engineering”	Deson Construction Engineering Limited (迪臣建築工程有限公司*), a company incorporated in BVI on 29 June 1993 and a non-wholly owned subsidiary of our Company upon completion of the Reorganisation
“Deson Development”	Deson Development Limited (迪臣發展有限公司), a limited liability company incorporated in Hong Kong on 1 March 1988 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Deson Development Holdings”	Deson Development Holdings Limited (迪臣發展集團有限公司*), a company incorporated in the BVI on 16 June 1993 and a wholly-owned subsidiary of DDIHL
“Deson Engineering”	Deson Engineering Limited (迪臣工程有限公司), a limited liability company incorporated in Hong Kong on 15 August 2001 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Deson Industries”	Deson Industries Limited (迪臣實業有限公司*) a company incorporated in BVI on 14 June 1993 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Deson Macau”	Deson (Macau) Construction Limited (迪臣(澳門)建築有限公司), a limited liability company incorporated in Macau on 24 August 2005 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation

## **DEFINITIONS**

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“Director(s)”	the director(s) of our Company
“Distribution”	a conditional distribution expected to be declared by DDIHL to be satisfied by way of a distribution in specie of an aggregate of [REDACTED] Shares to DDIHL Qualifying Shareholders, subject to the conditions described in the section headed “The Distribution and the Spin-off” of this document
“Distribution Record Date”	[REDACTED], [REDACTED] 2014, being the record date for ascertaining entitlements to the Distribution
“Ipsos”	Ipsos Hong Kong Limited, an Independent Third Party, being a professional market research company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, as amended or supplemented from time to time
“Grace Profit”	Grace Profit Investments Limited, a company incorporated in the BVI on 10 March 1999 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Group” or “our Group” or “we” or “us”	our Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK\$”, “Hong Kong dollars” or “HK dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HK Government”	the government of Hong Kong
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Property Legal Advisers”	Tsang & Lee, Solicitors, being the legal advisers to our Company as to Hong Kong property law

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## **DEFINITIONS**

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“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of and not connected with any of the directors, chief executive, or Substantial Shareholders of our Company or our subsidiaries or any of their respective associates
“Industry Report”	the industry report dated 5 September 2014 prepared by Ipsos on the building industry in Hong Kong and the PRC, the content of which is quoted in this document
“Introduction”	the listing of the entire issued share capital of our Company on GEM by way of introduction
“Kenworth Engineering”	Kenworth Engineering Limited (堅穩工程有限公司), a limited liability company incorporated in Hong Kong on 30 June 1922 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Kenworth Group”	Kenworth Group Limited, a company incorporated in the BVI on 31 August 2000 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Latest Practicable Date”	[5 September] 2014, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained herein
“Latest Ventures”	Latest Ventures Limited, a company incorporated in the BVI on 18 June 2014 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Listing”	the listing of our Shares on GEM
“Listing Date”	[REDACTED] 2014
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the main board of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, as amended from time to time, a summary of which is contained in Appendix III to this document
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)

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## **DEFINITIONS**

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“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), formerly the Ministry of Construction of the PRC (中華人民共和國建設部)
“MOP”	Macanese pataca, the lawful currency of Macau
“Mr. Tjia”	Mr. Tjia Boen Sien, who is an executive Director and one of the co-founders of our Group and one of our Substantial Shareholders
“Non-competition Agreement”	the non-competition agreement dated [●] entered into by the Controlling Shareholder in favour of our Company (for itself and as trustee for and on behalf of our subsidiaries) as further detailed in the section headed “Relationship with our Controlling Shareholder — Non-competition Agreement” of this document
“per cent.” or “%”	per cent.
“PRC” or “China”	the People’s Republic of China, and for the purpose of this document (including geographical reference mentioned herein), and except where the context otherwise requires, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	JunZeJun Law Offices, being the legal advisers to the Company as to the PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on the 3 March 2014 by the Companies Ordinance and the Companies Ordinance (Miscellaneous Provisions)
“Remaining DDIHL Group”	DDIHL and its subsidiaries after the Distribution, which excludes our Group
“Reorganisation”	the reorganisation of our Group in preparation for the Listing, details of which are described under the section headed “History, reorganisation and corporate structure — Overview of the Reorganisation” in this document
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人大常委會)

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## **DEFINITIONS**

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“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Deson”	上海迪申建築裝潢有限公司 (Shanghai Deson Decoration Engineering Co., Ltd.*), a limited liability company established in the PRC on 27 April 1993 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	ordinary share(s) with par value of HK\$0.05 each in the share capital of our Company
“Significant Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Spin-off”	the separate listing of our Shares on GEM by way of introduction, which is to be effected by the Distribution
“Sponsor” or “Kingsway Capital Limited”	Kingsway Capital Limited, the sponsor for the Listing and a corporation licensed under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined under the SFO)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the two financial years ended 31 March 2013 and 2014
“US”, “United States” or “USA”	the United States of America
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the US
“WBDB”	the Works Branch of Development Bureau of the HK Government

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## **GLOSSARY OF TECHNICAL TERMS**

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*This glossary of technical terms contains terms used in this document in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.*

“CAGR”	compound annual growth rate
“GDP”	gross domestic product
“GFA”	gross floor area
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	ISO9001 certification is an internationally recognised standard for quality business management. As a family member of the ISO 9000, it sets out requirements for ongoing improvement of product quality and services and design
“sq. ft.”	square feet

## **FORWARD-LOOKING STATEMENTS**

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This document contains forward-looking statements, including, but without limitation to, the words and expressions such as “aim”, “estimate”, “expect”, “believe”, “plan”, “intend”, “anticipate”, “may”, “seek”, “will”, “would” and “could” and the negative of these words or other similar expressions or statements, in particular, in the sections headed “Business”, “Financial information” and “Future plans” of this document in relation to future events, business or other performance and development, the future development of our Group’s industry and the future development of the general economy of our Group’s key markets and globally.

These statements are based on numerous assumptions regarding our Group’s present and future business strategy and the environment in which our Group will operate in the future. These forward-looking statements reflecting our Group’s current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors described in this document and the following:

- our Group’s business and operating strategies and our Group’s ability to implement such strategies;
- our Group’s capital expenditure and expansion plans;
- our Group’s ability to further develop and manage our Group’s expansion projects as planned;
- our Group’s operations and business prospects;
- various business opportunities that our Group may pursue;
- our Group’s financial position;
- the availability and costs of bank loans and other forms of financing;
- our Group’s dividend policy;
- the regulatory environment of our Group’s industry in general;
- the performance and future developments of our Group’s industry;
- changes in competitive conditions and our Group’s ability to compete under these conditions; and
- other factors beyond our Group’s control.

One or more of these risks may materialise and various underlying assumptions may prove incorrect.

Subject to the requirements of the applicable laws, rules and regulations, our Company does not have any obligation to update or otherwise revise the forward-looking statements in this

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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## **FORWARD-LOOKING STATEMENTS**

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document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

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

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## **RISK FACTORS**

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*You should carefully consider all of the information set out in this documents including the risks and uncertainties described below as holding our Shares involve various risks. The business, financial condition or results of operations of our Group could be materially adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### **RISKS RELATING TO OUR BUSINESS**

**There is no assurance that we will be eligible for or succeed in the tender process.**

Our major contracts are generally obtained through the tender process with the tender document specifying the general terms of the contract to be entered into between us and the customer as well as the necessary requirements of the tender. During the Track Record Period, contracts with all of our top five customers were obtained through competitive tendering. Our success rates for tender were approximately 31% and approximately 28% for the years ended 31 March 2013 and 2014. There is no guarantee that in the future, we will be eligible for such tenders or succeed in maintaining comparable tender success rates.

In addition, so far as our Directors are aware most of our customers have maintained an evaluation system for their tenders to ensure that contractors meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance which may change from time to time. If a contractor which is responsible for a construction site receives a poor safety performance review or an accident occurs on its responsible site, it may lead to a poor evaluation and this may affect its success rate for tenders. In serious cases, the contractor’s qualifications may be suspended and during this suspension period, it may be prohibited from tendering for works requiring such qualification. There is no assurance that we will meet the tendering requirements or our overall score under the evaluation system of our customers will not reduce, such as due to fatal accidents in our projects or material breaches of law. In case of such events, we may not be granted tender and furthermore, our reputation, business operations, financial results and profitability may be adversely affected.

**Changes in the social, political and economic landscape of Hong Kong and the PRC may materially affect our business.**

Our operations are based in Hong Kong and the PRC and therefore our revenue is mainly derived from Hong Kong and the PRC. For the years ended 31 March 2013 and 2014, our revenues derived from Hong Kong were approximately HK\$391.2 million and approximately HK\$644.8 million respectively, representing approximately 72.4% and approximately 78.1% of our total revenue respectively, whilst our revenue derived from the PRC were approximately HK\$149.1 million and approximately HK\$158.3 million respectively, representing approximately 27.6% and approximately 19.2% of our total revenue respectively. We also provide ad-hoc services in Macau, which contributed no revenue for the year ended 31 March 2013; and revenue of approximately HK\$22.2 million for the year ended 31 March 2014, representing approximately 2.7% of the total revenue for the year ended 31 March 2014. Demand for our services is principally connected to the level of construction activities in Hong Kong and the PRC and we may therefore be affected by the cyclical nature of the construction sector in these locations.

## **RISK FACTORS**

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Any major changes to Hong Kong’s and the PRC’s social, political and economic landscape will have a significant impact on our business and future growth, such as in the event of a dramatic change to the autonomy of Hong Kong under the principle of “one country, two systems” according to the Basic Law of Hong Kong. If there were any material adverse changes in the social, political and economic conditions in the region including (i) change in local government policies, rules or regulations; (ii) riots, natural disasters and other acts of god; (iii) breakdown in the transportation system which may disrupt our material supplies; or (iv) a sudden downturn in the economy or consumer demands, our operations, financial results and profitability may be adversely affected.

**Our revenue is mostly derived from non-recurring projects. Our results may therefore vary from time to time.**

Our revenue is mostly derived from non-recurring projects for our three main services with the provision of fitting-out works being the most significant contributor of our revenue, which amounted to approximately 45.1% and approximately 38.7% of our total revenue for the years ended 31 March 2013 and 2014 respectively. Additionally, there was a significant increase in projects in the building industry in Hong Kong during the Track Record Period. Our revenue therefore showed a significant increase from approximately HK\$540.2 million to approximately HK\$825.4 million for the years ended 31 March 2013 and 2014 respectively, representing an increase of approximately 52.8%. There is no guarantee that we will obtain a similar number or nature of projects in the future. If we cannot maintain the same quantity of contracts or obtain similar if not better terms than our current contracts, our business operations, financial results and prospects may be adversely affected.

During the course of the project we will apply for and receive progress payments for our work completed with a certain amount released after a defect liability period, being generally 12 months after the practical completion of the project. This means revenue from contracts with our customers may be recognised over time and in subsequent years after practical completion when all or most of our work has been completed. Additionally, customers may during the course of the project require additional services or changes in previously agreed specifications by issuing variation orders to us. In our experience, the amount from variation orders varies but may reach up to 10% of the original contract sum. For contracts completed during the Track Record Period and up to the Latest Practicable Date, our known variation orders as at the Latest Practicable Date amounted to approximately HK\$252 million. Our financial results may fluctuate due to the quantity and contract sums of new contracts each year, as well as variation orders received for individual contracts. Therefore, there is no assurance that our short-term operating results are any indication of our long-term prospects.

Additionally, the types of projects awarded to us may change based on customer demand and market conditions and our fee collection and profit margin may vary depending on the type of projects which we are involved. During the Track Record Period, our Group recorded overall gross profit margin of approximately 6.7% and approximately 5.7% for the years ended 31 March 2013 and 2014 respectively. However, the gross profit margin of certain services varied widely with the lowest being building construction works with gross profit margin of approximately 5.6% and approximately 4.4% for the years ended 31 March 2013 and 2014 respectively and the highest being fitting-out works with

## **RISK FACTORS**

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gross profit margin of approximately 7.5% and approximately 8.0% for the years ended 31 March 2013 and 2014 respectively. For further details, please refer to the section headed “Financial information — Discussion on major items of the combined statements of profit or loss and other comprehensive income” of this document.

**There is no guarantee that our customers will make payments or return retention monies on time, which may affect our financial condition.**

In general, we apply for progress payments each month during the course of the project for works completed subject to examination of completed works as detailed in the section headed “Business — Our business and operations — General workflow” of this document. Given that there is an examination process, we cannot guarantee that our customers will pay in a timely manner. If there is a substantial delay in the examination process or dispute as to the works completed, payments may be delayed. Our account receivables were approximately HK\$56.6 million and approximately HK\$68.9 million for years ended 31 March 2013 and 2014 respectively, including retention monies receivable of approximately HK\$7.9 million and approximately HK\$13.5 million over the same period. In addition, customers are generally entitled to hold up retention monies in the range of 1% to 5% of the contract sum to secure our Group’s performance. This amount is paid to us upon completion of the project or 12 months after completion (being the end of the defect liability period). We generally provide a credit period ranging from 14 to 90 days to our customers. In case there is any delay in payment by our customers, it may affect our liquidity and lead to a decrease in capital resources otherwise available to us. This may in turn adversely affect our business, financial conditions and results.

**We derived a significant percentage of our revenue from our major customers and if they choose not to engage us in the future, our results may be affected.**

For the years ended 31 March 2013 and 2014, our top five customers accounted for approximately 52.8% and approximately 54.4% of our total revenue respectively, while our largest customer accounted for approximately 13.6% and approximately 15.0% respectively of our total revenue.

Our major customers during the Track Record Period included two departments of the HK Government and companies in the private sector. We do not have any long term contracts with such customers and there is no assurance that our major customers will maintain the current business relationship with us upon the expiry of our existing contracts. If they choose not to continue seeking our services or if they significantly decrease the level of services required from us, we may need to find other customers to fully utilise our service capacity. If we fail to find other customers or diversify our customer base, our business operations, financial results and profitability will be adversely affected.

**Majority of our service contracts with customers have a fixed and pre-determined service fee. Our profitability may be adversely affected if we suffer from cost overrun or if our contracts are earlier terminated.**

Majority of our service contracts with customers have a fixed and pre-determined service fee throughout the contract period or do not have any clear price adjustment mechanisms. We generally

## **RISK FACTORS**

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fix our service fee when we submit our tender or quotation. Once the tender or quotation is agreed with our customers, we can only adjust our service in certain circumstances as stipulated in the contracts such as request by the customer for additional services or changes in specifications. Accordingly, we generally have to bear the risk of cost fluctuations. Even though some of our public sector contracts contain adjustment mechanisms, which allow for increase in our fee to address the rise in cost of materials and wages for our workers, we are typically required to bear some portion of the increase before we can make a claim under such adjustment mechanisms. In any event, the adjustment mechanisms may not fully cover the increases in our costs.

The terms of our contracts with customers are generally for a period of one to three years. There is no assurance that the costs estimated at the beginning of a contract will not be exceeded during the course of the contract period. Cost overrun may result from inaccurate estimation of costs, increase in costs of materials and wages of our workers, change in the regulatory requirements, disputes with sub-contractors, labour disputes as well as accidents and other unforeseen problems. If we are unable to keep our costs within our original estimates, or the price adjustment mechanisms are not provided, or we are not able to fully cover the increases in costs during the project, our business operations, financial results and profitability may be adversely affected.

In addition, our contracts with customers contain various circumstances for termination including certain cases for unilateral termination. During the Track Record Period, a contract where we were engaged as a sub-contractor was terminated in September 2013 because the main contract between the main contractor and the customer was terminated. We estimate that we are owed an interim payment of approximately HK\$0.30 million which was not paid as at the Latest Practicable Date for works completed at this stage. There is no guarantee that our contracts will not be earlier terminated and we will be not able to fully recover our costs. If this occurs, our business operations, financial results and profitability may be adversely affected.

**We may fail to obtain or renew the requisite licenses, permits or qualifications or otherwise fail to satisfy their requirements from time to time. This will affect our ability to get future projects.**

As at the Latest Practicable Date, we have a variety of licenses and permits for various types of works in Hong Kong and the PRC, and are on various lists of approved contractors to perform public works in Hong Kong, including those detailed in the section headed “Business — Major licenses, permits and qualifications” of this document. Some of these major licenses, permits or qualifications have an expiry date, the earliest expiry date is for Kenworth Engineering’s qualification as a Registered Minor Work Contractor (Type E works relating to structures for amenities) (Class III) which will expire on 11 November 2014. There is no assurance that we can renew the aforesaid in a timely manner or if we try to renew them, we will succeed.

In addition, some licenses, permits and qualifications are subject to our continued compliance with various standards relating to amongst others, financial capability, expertise, management and safety and there is no assurance that we will continue to meet such standards from time to time. There are circumstances which may affect our ability to maintain such licenses and permits or otherwise lead to a suspension, downgrading or demotion of our qualifications. For example, if a fatal construction

## **RISK FACTORS**

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accident occurs at our responsible construction site, it may lead to the relevant authority re-evaluating our qualifications. If we are unable to renew or otherwise maintain our licenses, permits or qualifications, we may not be able to obtain certain new projects, and thereby our financial position and prospects would be materially and adversely affected.

**We may fail to exercise sufficient control over our employees and sub-contractors and therefore fail to prevent accidents and breaches of law.**

We have implemented a number of policies (such as the work-place safety policy set out in the section headed “Business — Workplace safety” of this document) to provide guidance and measures to oversee our employees and sub-contractors (including their employees). However, we cannot guarantee that (i) they will fully comply with our policies or measures; or (ii) we will be able to effectively control their behaviour, and therefore fail to prevent accidents or breaches in law. During the Track Record Period and up to the Latest Practicable Date, we are in the process of challenging one on-going administrative case with a potential maximum penalty of HK\$0.5 million and six months imprisonment and we have settled five administrative cases for an aggregate amount of HK\$66,000 concerning breaches of construction safety regulations which involved employees of our sub-contractors. For further details of such penalties, please refer to the section headed “Business — Workplace safety — Workplace safety breaches due to employees of our sub-contractors” of this document. If we fail to successfully challenge the one on-going case or similar breaches occur in the future, it may materially and adversely affect our ability to obtain new contracts by tendering process, our reputation, business operation and financial results.

**We are exposed to disputes and claims relating to late delivery, personal injuries and other matters.**

As a main contractor, we are principally responsible for the implementation of construction projects and we may be involved in disputes in respect of various matters with our customers, suppliers and sub-contractors and other parties involved in the construction projects from time to time. As a sub-contractor, we may also be exposed to similar disputes. Claims may arise after disputes with suppliers and sub-contractors if insufficient or late payment remain unresolved. Disputes with customers in relation to sub-standard works or late delivery by us or our sub-contractors may escalate and lead to claims and we may incur liquidated damages under the terms of our contracts with such customers. For further details, please refer to the section headed “Business — Customers — General terms of contracts with customers” of this document. During the Track Record Period and up to the Latest Practicable Date, we had one late delivery incident involving a short delay in completion of the project due to the increase in the scope of our work as requested by our customer during the project which resulted a deduction of approximately HK\$450,000 as liquidated damages. Regardless of the merits of our case, these disputes may damage our relationship with such customers, suppliers or sub-contractors. We may also need to spend resources and incur costs to handle these disputes or claims, which may affect our reputation in the building industry and therefore adversely affect our business operations, financial results and profitability.

## **RISK FACTORS**

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Our employees who suffer bodily injury or death as a result of accidents during the course of their employment with us are entitled to claim damages against us under the Employees' Compensation Ordinance as well as under the common law. We are also liable under the Employees' Compensation Ordinance for the injuries of the employees of our sub-contractors during the course of the work we engaged. Furthermore, we may face claims from third parties from time to time, including those who suffer personal injuries at premises where we provide services.

During the Track Record Period and up to the Latest Practicable Date, we had settled five material claims in relation to employees' compensation with an aggregate settlement amount of approximately HK\$0.83 million. All these claims were in relation to personal injury claims of employees or ex-employees of our sub-contractors. Furthermore, all of these claims were covered either by our insurance or in instances where we were sub-contractors, the insurance of the main contractor and such insurance fully covered the settlement amount. As at the Latest Practicable Date, there were 20 material claims being handled by our insurer with a majority of which the quantum are yet to be assessed. It is possible that the subject workers of these incidents (including those already settled by insurance) may claim against us under the Employees' Compensation Ordinance or pursue personal injury claims against us under the common law. For details of the claims and litigations during the Track Record Period, please refer to the section headed “Business — Litigation and claims” of this document.

During the Track Record Period and up to the Latest Practicable Date, our employees' compensation insurance policies provide for a maximum limit of liability of up to HK\$200 million per event. There is no assurance that our or the main contractor's insurance policies will fully cover us for future events and if we have to pay out of our own resources for any uninsured claims, our financial results may be materially and adversely affected. Furthermore, regardless of the insurance coverage or the merits of our case, we may need to spend resources and incur costs to handle these claims, and these claims may affect our reputation in the building industry and thereby adversely affect our business operations, financial results and profitability.

**Our insurance policies may not be sufficient to cover liabilities arising from claims and litigation and our insurance premium may increase from time to time.**

We have taken out insurance policies in line with industry practice or required by our customers to cover our business operations. However, there are certain types of losses for which insurance coverage is not generally available on commercial terms acceptable to us, or at all. Examples of these include insurance against losses suffered due to business interruption, earthquake, flooding or other natural disasters, war, terrorist attack or civil disorder, or loss or damage caused by industrial actions. If we suffer any losses, damages or liabilities in the course of our business operations arising from events for which we do not have any or adequate insurance cover, we have to bear such losses, damages or liabilities by ourselves. In such a case, our business operations and financial results may be adversely affected. Even if we have insurance policies, our insurers may not fully compensate us for all potential losses, damages or liabilities relating to our properties or our business operations. We cannot control if there are reduction or limitation of insurance coverage by insurers upon the expiry of our current policies.

## **RISK FACTORS**

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We also cannot guarantee that our insurance premiums will not rise or we may be required by law or our customers to obtain additional insurance coverage. During the Track Record Period, our insurance costs have increased, where for the years ended 31 March 2013 and 2014, our total insurance premiums were approximately HK\$3.1 million and approximately HK\$4.5 million respectively. Any further increase in insurance costs (such as an increase in insurance premiums) or reduction in coverage may materially and adversely affect our business operations and financial results.

**We rely on sub-contractors in providing our services and if we cannot maintain our relationship or effectively monitor their operation, our business may suffer.**

Depending on the cost effectiveness of using sub-contractors, the availability of our internal resources, the relevant licensing or specialist requirements and level of complexity of the works, we may sub-contract our works to our sub-contractors. Generally, we rely on sub-contractors in providing our services, where for the years ended 31 March 2013 and 2014, our sub-contracting sums incurred amounted to approximately HK\$484.4 million and approximately HK\$694.7 million respectively, representing approximately 96.1% and approximately 89.3% of our total cost of sales over the same period. During the Track Record Period, all of our top five suppliers were sub-contractors providing services such as, amongst others, interior fitting out work and mechanical and engineer works, site formation and foundation works and addition, alteration and maintenance of fire services works. For the years ended 31 March 2013 and 2014, our aggregate purchases of services from our five largest suppliers were approximately 44.0% and approximately 30.6% respectively of our total purchases from all suppliers, while our purchases from our top supplier were approximately 14.0% and approximately 11.6% respectively of our total purchases from all suppliers. As we are generally engaged for non-recurring projects, we do not have any long-term contracts with our sub-contractors and only engage them as required for specific projects. Therefore, if our sub-contractors decide not to continue business relationship with us and we are unable to find a suitable replacement, our quality of service may be affected and financial results may suffer. There is also no assurance that we will find suitable sub-contractors if we expand to geographic locations where our existing sub-contractors do not operate, thereby affecting our expansion plans and prospects.

To ensure quality of our services, we generally select our sub-contractors for our projects from our list of approved suppliers and sub-contractors (for details of the criteria for assessing such suppliers, please refer to the section headed “Business — Suppliers and sub-contractors — Criteria for selecting suppliers and sub-contractors” of this document) and also monitor their performance on site. However, they are responsible for and we rely on them to provide quality work and to govern their employees. We expose to risks of claim from breach of contract or law if they fail to perform the sub-contracted works satisfactorily or on time or if they fail to manage their staff in accordance with relevant legal requirements such as in compliance of safety regulations. In such event, our reputation, business operations, financial results and profitability may be materially and adversely affected.

## **RISK FACTORS**

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**We may be subject to fines or relocation costs in relation to defects over two leased premises.**

Amongst the premises leased by us, there is (i) a leased premise in Hong Kong for warehouse use where the entire building is subject to a building order due to a defect on an external wall; and (ii) a premise in the PRC for use as our Beijing office where the relevant lease was not registered with the relevant PRC government authority. We are advised by our Hong Kong Property Legal Advisers and our PRC Legal Advisers that such defects should not affect the validity of our leases. However, in relation to the non-registration of the PRC lease, we may be subject to a maximum fine of RMB10,000. For further details, please refer to the section headed “Business — Properties — Leased properties” of this document. If we are fined or decide to relocate due to such defects, our Group’s business and operation may be affected.

**Our operations are affected by weather conditions and construction risks that may affect our ability to complete the project in time or otherwise affect our results.**

Most of our projects are undertaken outdoor and therefore are subject to adverse weather conditions. In addition, construction risks may also include other hazards such as fire, suspension of water and electricity supplies. These conditions and risks may require us to use additional resources or incur additional costs such as for repair or replacement of damaged property or otherwise affect our ability to complete project on schedule. Besides increasing our operating costs, this situation may lead to cost overrun in our cost estimation for our tenders. If our project is delayed and terms of the contract do not accommodate for such delays or our customers do not grant us sufficient extension of time for completion, we may be subject to liquidated damages which will adversely affect our financial results.

**Loss of key management for our operations may materially affect our operations.**

Our success is, to a significant extent, attributable to the leadership and contributions of our management team members as described in the section headed “Directors, senior management and staff” of this document, particularly our executive Directors have been with us for over 14 years and have extensive experience working in the building industry in Hong Kong and the PRC. Our continued success is therefore dependent to a large extent on our ability to retain the services of our management team. Any unanticipated departure of members of the management team without appropriate replacement found may impact, amongst others, our ability to gain tenders, provide accurate estimation of costs and manage our projects. Such loss may therefore have a material adverse effect on our business operations and profitability.

**We are exposed to fluctuations in exchange rates and significant changes may increase our operating costs.**

Some of the materials and equipment purchased by us are imported by our suppliers from places outside of Hong Kong. Although our suppliers generally allow us to pay in Hong Kong dollars, the prices offered by our suppliers may be increased due to fluctuations in exchange rates. If we are unable to find other suppliers or alternatives at a cheaper cost, significant changes in exchange rates may therefore indirectly increase our operating costs.

## **RISK FACTORS**

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### **RISKS RELATING TO OUR INDUSTRY**

#### **We operate in a highly competitive industry.**

We operate in a highly competitive industry with a large number of competitors including local and international companies which offer similar services as ours. Some of our competitors may have more manpower, resources, licenses and qualifications, longer operating histories and stronger relationship with customers and brand names. Due to the large number of competitors, we face significant downward pricing pressure and thereby reducing our profit margins. If we cannot adapt effectively to market conditions and customer preferences or otherwise fail to provide a competitive bid as compared to our competitors, our services may not be attractive to customers and our profitability may be materially and adversely affected. Our competitors may also adopt aggressive pricing policies or develop relationships with our customers in a manner that could significantly harm our ability to secure contracts.

We may also compete in other areas including for services of sub-contractors and qualified employees. If we cannot attract their services or are unable to compete in such other areas, our business, financial condition, results of operations and prospects may be materially and adversely affected.

#### **There is a material shortage of skilled workers in the building industry in Hong Kong. If we are unable to retain or replace such workers, it may affect our business and there is no assurance that our labour costs will not increase.**

According to the Industry Report, one of the major threats in the industry is the material shortage of workers and skilled workers in the building industry in Hong Kong, which is attributable to factors such as the decrease in the number of young people entering into this industry, the increasing number of retirements in this industry as well as the increasing demand for construction works in Hong Kong. Even without such shortage, we generally compete with similar businesses for such workers. Given that we are in a labour intensive industry, we rely on our workers for our business operations and if we are unable to retain or replace such workers, we may be forced to increase our reliance on sub-contractors or otherwise be unable to maintain the quality of our services. We cannot assure you that we will be able to maintain a sufficient labour force necessary for us to execute our business, nor can we guarantee that staff costs will not increase to attract or maintain workers. If this occurs, it could have a material and adverse effect on our results of operations and inhibit our future growth and expansion plans.

#### **The operations of construction companies in Hong Kong and the PRC are subject to compliance with a number regulatory requirements and such compliance may affect our operating costs and profitability.**

Our Group’s operations are required to comply with various safety, employee protection and environmental protections law, regulations and requirements in Hong Kong and the PRC, with certain material ones summarised in the section headed “Regulatory overview” of this document. In the event that our Group’s operations fail to meet them, we may be subject to fines or required to take

## **RISK FACTORS**

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remedial measures or they may affect our ability to obtain new projects. If any of these events occurs, it may adversely affect our reputation, business, financial condition and results of operations. Additionally, any changes in such requirements may result in our Group incurring additional costs to comply which may increase our operating costs and adversely affect our profitability.

### **RISKS RELATING TO THE INTRODUCTION AND OUR SHARES**

**There can be no guarantee as to the accuracy of facts and other statistics contained in this document with respect to the economies and the industry in which we operate or forward-looking statements.**

Certain facts and other statistics in this document are derived from various sources including the Industry Report and various government and official sources that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials.

We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Whilst our Directors have taken all reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Sponsor or any of their respective directors, affiliates or advisers. Therefore, we make no representation as to the accuracy of such facts and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the statistics referred to or contained in this document may be inaccurate or may not be comparable to statistics produced for other publications or purposes and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics. Furthermore, you should not put undue reliance on any forward looking statements contained in this document, which may not occur in the way we expect.

**Shareholders’ interests in our Company may be diluted in the future.**

If we issue additional Shares in the future, our Shareholders may experience dilution in their ownership percentage. We may issue such shares in a number of circumstances including pursuant to issue of new Shares to finance acquisitions or issue of new Shares for purposes of obtaining equity funding. In addition, we may consider offering and issuing additional Shares in the future for expansion of our business which may result in the aforesaid dilution.

**There has been no existing public market for our Shares and there may be a lack of liquidity and volatility in its price and trading volume.**

Prior to the Listing, there was no public market for, and no established price for, our Shares. There is no guarantee that there will be an active and liquid trading market for our Shares or that such market will be sustainable.

## **RISK FACTORS**

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Furthermore, we cannot assure you that there will not be any volatility in the price and trading volume of our Shares. In particular, the initial price of our Shares will be determined by the market and fluctuate significantly following the Listing. You should note that our Shares may experience significant price and volume fluctuations due to matters unrelated to our operating performance and outside our Group’s control such as general fluctuations in the securities market.

**Prior dividends distributions are not an indication of our future dividend policy and we may not be able to pay any dividends on our Shares.**

Our Company does not have any pre-determined dividend distribution ratio. For details of the factors which we considered, please refer to the section headed “Financial information — Dividend and dividend policy” of this document. Immediately before Listing, our Company will declare a special dividend to Deson Development Holdings, and Deson Development Holdings will use the amount received from the dividend to pay for and set off against part of the net amount due by Deson Development Holdings to our Company. All the remaining outstanding inter-company balance due from Deson Development Holdings to our Company will then be settled in cash.

There is no assurance that future dividend will be declared and paid in an amount equivalent to or exceeding historical dividend declared or at all. Therefore, investors are cautioned not to use historical dividend as an indication of the amount of future dividend to be declared or paid. The payment and the amount of any future dividend will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividend, future prospects and other factors that we may consider relevant. The declaration, payment and amount of any future dividend will also be subject to our discretion.

**The interests of our Controlling Shareholders may conflict with the interests of our Group’s public shareholders.**

Immediately upon the completion of the Introduction, DDIHL, our Controlling Shareholder, whose shares are listed on the Stock Exchange, will own approximately [REDACTED]% of our enlarged issued share capital. Therefore, our Controlling Shareholder will be able to exercise substantial control or influence over our business by directly or indirectly voting at shareholders’ meetings in matters that are significant to us and our public Shareholders. For example, they may perform significant corporate actions, affect composition of the Board and affect the issue of dividends. Our Controlling Shareholder may take actions, and exercise influence that favour their interests over the interests of us or our public Shareholders. We cannot assure you that our Controlling Shareholder will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of our other Shareholders.

## **RISK FACTORS**

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**You should read this document carefully (including the risks disclosed) and we strongly caution you not to place any reliance on any information in press articles, other media and/or research analyst reports.**

You should read this document carefully including the other risks factors set out in this section. After the publication of this document, there may be press articles, other media and/or research analyst reports regarding us, our business, our industry and the Introduction. Such sources may include certain operational information, financial information, financial projections, valuations and other information about us that are not contained in this document. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information.

Furthermore, 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 appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it, and accordingly you should not rely on any such information.

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS LISTING DOCUMENT AND THE INTRODUCTION**

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[REDACTED]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS LISTING DOCUMENT AND THE INTRODUCTION**

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[REDACTED]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS LISTING DOCUMENT AND THE INTRODUCTION**

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[REDACTED]

## **THE DISTRIBUTION AND THE SPIN-OFF**

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### **THE DISTRIBUTION**

On [REDACTED] 2014, the board of directors of DDIHL announced that a meeting of the board of DDIHL will be held on [REDACTED] 2014 for the purpose of, among other matters, considering the declaration of a conditional distribution, being the Distribution. The board of DDIHL also announced that if the conditional distribution is declared, the record date and book closure date for ascertaining the entitlements will be [REDACTED] 2014.

The board of DDIHL is expected to declare the Distribution to the DDIHL Qualifying Shareholders, being registered holders of DDIHL Shares whose names appear on the register of members of DDIHL on the Distribution Record Date. The Distribution will be satisfied wholly by way of a distribution in specie to the DDIHL Qualifying Shareholders of an aggregate of [REDACTED] Shares, representing approximately [REDACTED]% of the issued share capital of our Company, in proportion to their respective shareholdings in DDIHL on the Distribution Record Date. Pursuant to the Distribution, the DDIHL Qualifying Shareholders will be entitled to [REDACTED] Share for every [REDACTED] DDIHL Shares held on the Distribution Record Date. Fractional entitlements will be disregarded.

The Distribution is conditional on the board of directors of DDIHL declaring the conditional distribution as well as on the Listing Division granting listing of, and permission to [REDACTED] in, the Shares in issue on GEM. If these conditions are not satisfied, the Distribution will not be made and the Spin-off will not take place.

Share certificates are expected to be despatched to DDIHL Qualifying Shareholders on [REDACTED] 2014. Share certificates will only become valid if the Distribution becomes unconditional.

If there exists any DDIHL Overseas Shareholder(s) at the close of business on the Distribution Record Date, the directors of DDIHL will make enquiries regarding the feasibility of extending the Distribution to the DDIHL Overseas Shareholder(s). If based on legal opinions provided by DDIHL's overseas legal advisers, the directors of DDIHL consider that it is necessary or expedient not to extend the Distribution to particular DDIHL Overseas Shareholder(s) on account either of the legal restrictions under the laws of the place(s) of its/his/her/their registered addresses or the requirements of the relevant regulatory bodies or stock exchanges in those places outside Hong Kong, the assured entitlement to the Shares will not be available to such DDIHL Overseas Shareholder(s). Instead, the DDIHL Overseas Shareholder(s) will receive a cash amount representing the net proceeds of the sale by DDIHL on their behalf of the Shares to which such DDIHL Overseas Shareholder(s) would otherwise be entitled pursuant to the Distribution after dealings in the Shares commence on GEM at the prevailing market price. DDIHL will ensure that the purchaser(s) of such Shares is/are Independent Third Party(ies). The proceeds of such sale, net of expenses, of more than HK\$100 will be paid to the relevant DDIHL Overseas Shareholder(s) in Hong Kong dollars. Cheques for such net proceeds are expected to be despatched within approximately two weeks following the commencement of dealings of our Shares on GEM. DDIHL will retain individual amounts of HK\$100 or less for its own benefit. According to the register of members of DDIHL as at the Latest Practicable Date, there was one DDIHL Overseas Shareholder with his address in Canada, and such DDIHL Overseas Shareholders will also be entitled to the Distribution.

## **THE DISTRIBUTION AND THE SPIN-OFF**

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As the disposal of its shareholding interest in our Company following completion of the Spin-off will be by way of the Distribution alone, the Spin-off will not be a transaction by DDIHL and accordingly there will be no requirement to comply with the notification or shareholders' approval requirements of Chapter 14 of the Listing Rules.

### **REASONS FOR AND BENEFITS OF THE SPIN-OFF**

The directors of DDIHL concluded that our Group's business and the Remaining DDIHL Group's business have each grown to a scale which merits a separate listing and thus, such separate listing will be beneficial to the Remaining DDIHL Group and our Group for the following reasons:

- (a) the Remaining DDIHL Group and our Group, operating in different business segments, are believed to have different growth paths and different business strategies. By delineating clearly between the Remaining DDIHL Group's business and our Group's business, the Spin-off allows our Group's business to create a more defined business focus and efficient resource allocation. The Spin-off will also allow separate fund raising platforms for the businesses of the two groups to fund the growth and expansion of our Group's business and the Remaining DDIHL Group's business;
- (b) the Spin-off will potentially provide greater debt capacity due to greater clarity for credit profiling of DDIHL and our Company respectively by financial institutions that wish to extend credit or financing to DDIHL or our Company;
- (c) the Spin-off will enable the management of DDIHL and our Company to dedicate their time on building the core businesses of the Remaining DDIHL Group and our Group, respectively, to adopt different business strategies in order to better suit their respective businesses, thereby simplifying the decision-making process and increasing their responsiveness to market changes and opportunities specific to the business of the relevant group;
- (d) the Spin-off will provide a mechanism to attract and motivate the management of our Company to be directly in charge of its operating and financial performance on a standalone basis;
- (e) DDIHL will continue to be the beneficial owner of a majority of shares in our Company after the Spin-off and to benefit from any enhanced value of our Group through the Spin-off. DDIHL Shareholders will continue to enjoy the benefits from the future development and growth of our Group's business; and

**THE DISTRIBUTION AND THE SPIN-OFF**

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- (f) the Spin-off will create two groups of companies and could unlock the value of the Construction and Engineering Contracting Business. The Spin-off will be by way of a distribution in specie whereby upon listing of the Shares, existing DDIHL Shareholders will be able to get certain [REDACTED] Share for [REDACTED] existing DDIHL Shares held by them. DDIHL will thus be able to return value to its shareholders in the form of liquid securities.

In light of the above, directors of DDIHL consider that the Spin-off is in the interests of DDIHL and its subsidiaries (including the Group) and the DDIHL Shareholders taken as a whole.

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## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors:</i>		
Keung Kwok Cheung (姜國祥)	Flat C, 30th Floor, Tower 6, Island Resort, 28 Siu Sai Wan Road Chai Wan, Hong Kong	Chinese
Kwok Koon Keung (郭冠強)	Flat LC, 21st Floor Sunrise Tower 8 - L Wing, Lohas Park Le Prestige Le Prime, 1 Lohas Park Road Tseung Kwan O New Territories, Hong Kong	Chinese
Lo Wing Ling (羅永寧)	Flat 1305, 13th Floor, Block G 20 On Yat Street, Allway Gardens, Tsuen Wan New Territories, Hong Kong	Chinese
<i>Non-executive Director:</i>		
Tjia Boen Sien (謝文盛)	Flat A, 26th Floor, Block 11, City Garden 233 Electric Road Hong Kong	Chinese
<i>Independent non-executive Directors:</i>		
Lee Tho Siem (李多森)	Flat B, 22nd Floor, Block 15, Provident Centre 49 Wharf Road North Point, Hong Kong	Chinese
Cheung Ting Kee (張廷基)	6A, Tower 2, Providence Peak, 8 Fo Chun Road, Tai Po, New Territories, Hong Kong	Chinese
Ong King Keung (王競強)	Flat 3A, Yat Wing Mansion, Lei King Wan, 43 Tai Hong Street Hong Kong	Chinese

For further information on the profile and background of our Directors, please refer to the section “Directors, senior management and staff” in this document.

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## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

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### PARTIES INVOLVED IN THE INTRODUCTION

**Sponsor**

**Kingsway 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 under the SFO*  
7th Floor, Tower 1, Lippo Centre  
89 Queensway  
Hong Kong

**Legal advisers to the Company**

*As to Hong Kong law (excluding property law)*

**Howse Williams Bowers**

27th Floor, Alexandra House  
18 Chater Road,  
Central, Hong Kong

*As to Hong Kong law (property law only)*

**Tsang & Lee, Solicitors**

Unit 1308, 13th Floor, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Sheung Wan, Hong Kong

*As to PRC law*

**JunZeJun Law Offices**

6th Floor, South Tower  
Financial Street Centre  
9 Financial Street, Xicheng  
Beijing, the PRC

*As to Macau law*

**Marcelo Poon**

Lawyer and Private Notary  
Avenida da Praia Grande °665  
Edifício Great Will, 20° Andar  
Macau

*As to Cayman Islands law*

**Appleby**

2206-19 Jardine House  
1 Connaught Place  
Central, Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION**

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<b>Legal advisers to the Sponsor</b>	<i>As to Hong Kong law</i> <b>Peter C. Wong, Chow &amp; Chow</b> in association with Guantao Law Firm (Hong Kong) Suites 1604-06, 16th Floor 3 Garden Road, ICBC Tower Central, Hong Kong
<b>Auditors and reporting accountants</b>	<b>Ernst &amp; Young</b> <i>Certified Public Accountants</i> 22nd Floor CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
<b>Internal control adviser</b>	<b>Baker Tilly Hong Kong Risk Assurance Limited</b> 2nd Floor 625 King’s Road North Point, Hong Kong
<b>Property valuer</b>	<b>Peak Vision Appraisals Limited</b> 12th Floor, Effectual Building 14-16 Hennessy Road Wanchai, Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
<b>Headquarters and principal place of business in Hong Kong</b>	11th Floor Nanyang Plaza No. 57 Hung To Road, Kwun Tong Kowloon, Hong Kong
<b>Company’s website address</b>	<u><a href="http://www.deson-c.com">www.deson-c.com</a></u> <i>(information contained in this website does not form part of this document)</i>
<b>Company secretary</b>	<b>Tong Ka Ming, Patrick (唐家明)</b> <i>Certified Public Accountant</i> 4C Kingsford Garden 106 Blue Pool Road Happy Valley, Hong Kong
<b>Compliance adviser</b>	<b>Kingsway Capital Limited</b> <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> 7th Floor, Tower 1, Lippo Centre 89 Queensway Hong Kong
<b>Authorised representatives</b>	<b>Keung Kwok Cheung (姜國祥)</b> Flat C, 30th Floor, Tower 6, Island Resort, 28 Siu Wan Road, Chai Wan, Hong Kong  <b>Tong Ka Ming, Patrick (唐家明)</b> <i>Certified Public Accountant</i> 4C Kingsford Garden 106 Blue Pool Road Happy Valley, Hong Kong
<b>Compliance officer</b>	Keung Kwok Cheung (姜國祥)
<b>Audit Committee</b>	[Ong King Keung (王競強)] ( <i>Chairman</i> ) [Lee Tho Siem (李多森)] [Cheung Ting Kee (張廷基)]

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**CORPORATE INFORMATION**

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<b>Remuneration Committee</b>	[Lee Tho Siem (李多森)] ( <i>Chairman</i> ) [Ong King Keung (王競強)] [Cheung Ting Kee (張廷基)] [Keung Kwok Cheung (姜國祥)] [Tjia Boen Sien (謝文盛)]
<b>Nomination Committee</b>	[Lee Tho Siem (李多森)] ( <i>Chairman</i> ) [Ong King Keung (王競強)] [Cheung Ting Kee (張廷基)] [Keung Kwok Cheung (姜國祥)] [Tjia Boen Sien (謝文盛)]
<b>Internal Control Committee</b>	[Ong King Keung (王競強)] ( <i>Chairman</i> ) [Lee Tho Siem (李多森)] [Cheung Ting Kee (張廷基)]
<b>Principal share registrar and transfer office</b>	[REDACTED] [REDACTED]
<b>Hong Kong branch share registrar and transfer office</b>	[REDACTED] [REDACTED]
<b>Principal bankers</b>	<b>Standard Chartered Bank (Hong Kong) Limited</b> 13th Floor Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong  <b>Dah Sing Bank Limited</b> 36th Floor, Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong

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## **INDUSTRY OVERVIEW**

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*Certain facts, statistics and data presented in this section and elsewhere in this document 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 or any of its respective affiliates or advisers, nor by the Sponsor or any of its affiliates or advisers or any other party involved in the Introduction. 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 Industry 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 Industry Report which may qualify, contradict or have an impact on the information in this section.*

### **SOURCES OF INFORMATION**

#### **Industry Report from Ipsos**

In connection with the Introduction, we commissioned an independent professional market research company, Ipsos, to assess the industry development trends, market demand and competitive landscape of the building industry in Hong Kong and the PRC for the period from 2009 to 2018. We have incurred total fee and expenses of approximately HK\$438,000 for the preparation of the Industry Report. 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 information and statistics set forth in this section have been extracted from the Industry Report. The payment of such amount was not conditional on our Group’s successful listing or on the results of the Industry Report.

#### **Methodology**

The Industry Report includes information on the building industry in Hong Kong and the PRC. The information contained in the Industry Report is derived by means of data and intelligence gathering which include: (i) desk research and (ii) primary research, including interviews with key stakeholders and industry experts in Hong Kong and the PRC including building construction work companies, electrical and mechanical engineering work companies, fitting-out work companies, main contractors, developers, architects, industry experts, government officials 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. All statistics are based on information available as at the date of the Industry 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.

#### **Assumptions and parameters**

The following assumptions were made in the analysis in the Industry Report: (i) there is no external shock such as financial crisis or natural disasters to affect the demand for and the supply of building construction works, electrical and mechanical engineering works, and fitting-out works (the “**Relevant Building Works**”) over the forecast period; and (ii) the supply of Relevant Building Works will grow under government promotion such as due to the increase in housing supply, infrastructure, etc.

The following parameters have been taken into account in market sizing and forecast models in the Industry Report: (i) GDP value and GDP growth rate in Hong Kong from 2009 to 2018; (ii) accident rate in the building industry in Hong Kong from 2009 to 2013; (iii) gross output value of construction works performed by main contractors at construction sites in Hong Kong from 2009 to 2013; (iv) segmentation of output value of building properties under construction in Hong Kong by building types from 2009 to 2018; (v) estimated number of workers and professionals in the market for electrical and mechanical engineering work in Hong Kong from 2009 to 2013; (vi) estimated

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## INDUSTRY OVERVIEW

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number of workers and professionals in market for fitting-out works in Hong Kong from 2009 to 2013; (vii) price trend of steel reinforcements in Hong Kong from 2009 to 2013; (viii) price trend of cement in Hong Kong from 2009 to 2013; (ix) price trend of construction worker wages in Hong Kong from 2009 to 2013; and (x) segmentation of output value of building properties under construction in PRC by building types from 2009 to 2018.

### OVERVIEW OF THE BUILDING INDUSTRY IN HONG KONG

#### Types of works

There may be various types of works involved for projects in the building industry. For the purposes of the study in the Industry Report, Ipsos looked at three types of works including (i) building construction works; (ii) electrical and mechanical engineering works; and (iii) fitting-out works.

### MARKET FOR BUILDING CONSTRUCTION WORKS IN HONG KONG

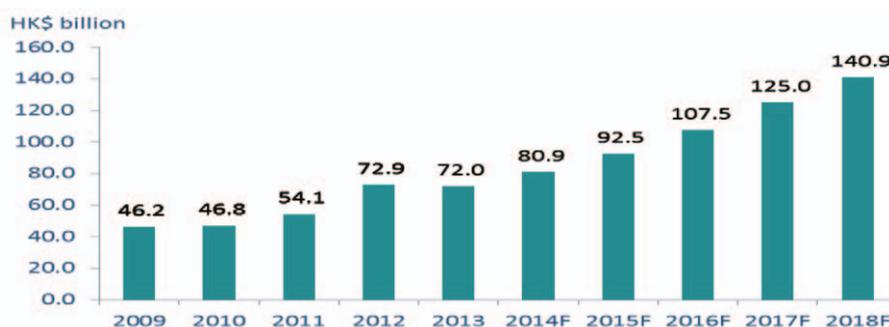
#### Overview

Building construction works can broadly be classified into three categories, namely buildings (including residential, commercial, and industrial), structures and facilities (including transport, other utilities and plant, environment, and sports and recreation), and non-site activities (including decoration, maintenance and repair, etc.) but may also include repairing and alterations of existing structures.

The major customers for building construction works include private developers and departments of the HK Government. Strong demand for the building construction works came from both private and public sectors in recent years and revenue from building construction works in Hong Kong grew.

In some cases, contractors in this market would not receive works directly from the aforesaid customers but are engaged by the main contractors (who are engaged by the aforesaid customers) or other sub-contractors. This is because contractors may perform the work themselves or further sub-contract their works to one or more sub-contractor(s).

The revenue from building construction works in Hong Kong increased from approximately HK\$46.2 billion in 2009 to approximately HK\$72.0 billion in 2013, at a CAGR of approximately 11.7%. Such an increase was mainly due to the increase in large scale and complex projects such as a number of building construction project which involves shopping malls, office buildings and club houses, in Hong Kong in the past five years. It is expected that the revenue from building construction works in Hong Kong will maintain a substantial growth from approximately HK\$80.9 billion in 2014 to approximately HK\$140.9 billion in 2018, at a CAGR of approximately 14.9%, supported by the HK Government’s housing policy, which promises an increase in the housing supply in Hong Kong. The following table sets out the revenue from building construction works in Hong Kong (historical revenue from 2009 to 2013 and the forecast figures from 2014 to 2018).



*Notes: Data refers to gross value of building construction works in nominal terms performed by main contractors and sub-contractors at construction sites.*

*Source: Industry Report*

## **INDUSTRY OVERVIEW**

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### **Trends, developments and market drivers**

The following are some of the major trends, developments and market drivers for the market for building construction works:

- Building construction projects have been growing in size and complexity, such as a building complex with both malls and residential buildings. There is a growing tendency for property developers to award the whole building complex as a single contract to contractors with comprehensive services in Hong Kong. As a result, contractors for building construction works are expanding their services scope to include other services to stay competitive including electrical and mechanical works, fitting-out works, site formation and clearance, piling and related foundation works.
- The cool down in the PRC property market in recent years has led to the heating in the Hong Kong property market. With the PRC government placing limits on multiple-home ownership and by raising interest rates, the PRC investors are increasingly developing and purchasing properties overseas. Hong Kong is one of such investors' prime target locations due to proximity to the PRC and due to such investor's migration plans. This raises the demand in new construction projects in Hong Kong, and the demand for works in the building industry in Hong Kong including building construction works.
- There has been an increase in the demand for housing in Hong Kong due to rapid rising population. The recent HK Government's 2013/2014 Policy Address tend to focus on land reserve for residential development, and urban redevelopment in ageing districts, which will directly increase the demand for building construction works in Hong Kong. It is expected that there will be approximately 210,000 new housing units provided in the coming five years. Such redevelopment will drive the demand for the works in the building industry in Hong Kong in general but particularly building construction works.

### **MARKET FOR ELECTRICAL AND MECHANICAL ENGINEERING WORKS IN HONG KONG**

#### **Overview**

A contractor in the market for electrical and mechanical engineering works is primarily involved in the design of electrical and mechanical systems, sourcing of materials and components, sub-contracting and supervising installation works, and testing the systems for its customers, who are mainly the main contractors of the building industry in Hong Kong.

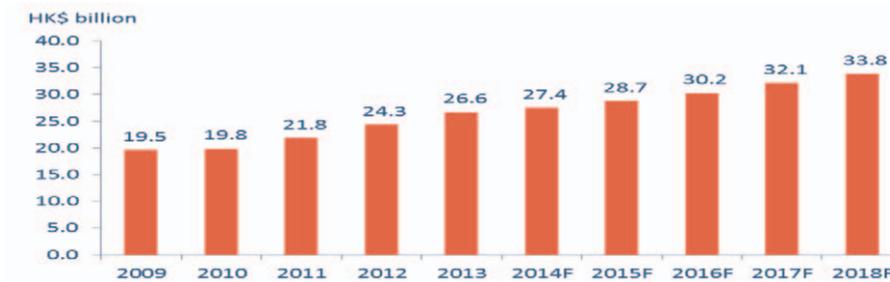
Major customers for electrical and mechanical engineering works include the HK Government, property developers, main contractors for building construction works and contractors for electrical and mechanical works. Participants in this segment are mainly electrical and mechanical work contractors who possess the specialist knowledge and expertise to carry out air-conditioning, fire services, and electrical and extra low voltage installation works.

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## INDUSTRY OVERVIEW

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Revenue from the electrical and mechanical engineering works in Hong Kong increased from approximately HK\$19.5 billion to approximately HK\$26.6 billion from 2009 to 2013, at a CAGR of approximately 8.1%. Such significant growth in revenue of the electrical and mechanical engineering work industry has been fuelled by the infrastructure projects, development of more efficient building systems and maintenance works for old buildings in Hong Kong. The following table sets out the revenue from electrical and mechanical engineering works in Hong Kong (historical revenue from 2009 to 2013 and the forecast figures from 2014 to 2018).



*Notes: Data comprises air-conditioning installation works, electrical and extra low voltage installation works, and fire service installation works.*

*Source: Industry Report*

From 2014 to 2018, revenue from electrical and mechanical engineering works in Hong Kong is expected to increase further at a CAGR of approximately 5.4%. Overall, from 2009 to 2018, the electrical and mechanical engineering works is expected to grow at a CAGR of approximately 6.3%, mainly driven by public sector projects. The revenue from electrical and mechanical engineering works will reach its summit in 2016, 2017 and 2018 with a yearly growth of approximately 5.6%, compared to approximately 3.9% of 2014 and 2015, as the infrastructure projects near their peak stages and stabilise from thereon, supported by the HK Government’s commitment to providing a regular supply of public housing on a yearly basis until 2024.

### **Trends, developments and market drivers**

The following are some of the major trends, developments and market drivers for the market for electrical and mechanical engineering works:

- In the future, there will also be more new high-rise buildings in Hong Kong and the demand for fire service installations and equipment will continue to increase. The industry will need to make continuous improvement and adapt to address the design of such building.
- There are increasing number of old buildings and industrial buildings which require maintenance and revitalisation in Hong Kong. The number of old buildings in Hong Kong is expected to reach 20,000 by 2023 and maintenance works will be needed to upgrade or repair their building systems to ensure full functionality. This is expected to provide a constant stream of projects for contractors of electrical and mechanical engineering works.
- The market tends to shift towards more intelligent buildings, which expected to boost demand for electrical and mechanical engineering works particularly involving the design and production of more energy efficient electrical and mechanical engineering works in an increasingly environmental aware society. Generally, the market will be driven in the future by the introduction of greener and higher-performance building systems (e.g. wider use of wireless sensors and controllers, smart air-conditioning systems and low carbon lifecycle lighting).

### **MARKET FOR FITTING-OUT WORKS**

#### **Overview**

Fitting-out works are usually carried out as one of the latter stages of a construction project before occupation. Flooring or feature flooring, partition, door, wall, ceiling finishes, and sometimes fixed furniture installation are the typical services provided. Fitting-out works are often sub-contracted by main contractors for building construction works from large-scale construction

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## INDUSTRY OVERVIEW

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projects. Such sub-contractors often take part in projects as fitting-out works sub-contractors or interior design and fitting-out works sub-contractors. Large contractors for fitting-out works are usually favoured by customer due to their financial strength and sufficient number of skilled workers. For major players in the building industry, they usually have at least one subsidiary company that has the qualification and/or related experience to carry out fitting-out works.

Fitting-out works in Hong Kong recorded revenue of approximately HK\$4.0 billion in 2009 and peaked in 2012 at approximately HK\$8.0 billion. This was due to the launch of Operation Building Bright in Hong Kong announced in the HK Government’s 2011/2012 Policy Address, which amongst others, encouraged refurbishment and fitting-out works for old buildings in Hong Kong. The peak in 2012 was also contributed by to the number of completed hotels and high-end residential buildings that year such as the Dorsett Hotel in Kwun Tong and Festival City in Tai Wai, Hong Kong. According to the Buildings Department, there were 24 newly built hotels in 2012 with only 16 newly built hotels in 2011. Meanwhile, the number of newly built hotels in 2014 is estimated to be around 13, which is approximately 17.0% lower than that of 2013 when there were 16 newly built hotels. Revenue from fitting-out works therefore is expected to drop slightly in 2014, and then continue a rising trend from 2015 onwards, due to the increasing number of new hotels and retail spaces from 2015. The following table sets out the revenue from fitting-out works in Hong Kong (historical revenue from 2009 to 2013 and the forecast figures from 2014 to 2018).



*Source: Industry Report*

### **Trends, developments and market drivers**

The following are some of the major trends, developments and market drivers for the market for fitting-out works:

- Due to the increasing construction costs, it is expected that private property developers will decrease their costs for fitting-out works in individual apartments to maintain their profit margin. This might decrease the number of large-scale fitting-out projects for private residential buildings. Instead, private property developers tend to have more luxurious clubhouses or other public areas of the buildings and therefore the fitting-out industry will continue to benefit from such projects overall.
- In recent years, there is a popular trend for fashion and luxury brands to set up flagship stores in central business districts in Hong Kong such as in Central, Causeway Bay and Tsim Sha Tsui. As flagship stores tend to be multi-level stores with extravagant external and interior design and also have a relatively larger floor area compared to regular stores, this development boosted demands for fitting-out works.
- The growth in population and the Hong Kong property market heat are expected to drive the demand for residential housing, and works in the building industry in Hong Kong in general including fitting-out works. There is an estimated 221,900 public and private housing units which will be constructed in the coming five years in response to the rising demand for residential buildings.

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### MAJOR THREATS TO THE BUILDING INDUSTRY IN HONG KONG

The following are some of the major threats to the building industry in Hong Kong:

- **Labour shortage:** Despite the increasing number of registered labourers in the building industry, from about 268,000 workers in 2009 to about 322,000 workers in 2013, only about 70,000 registered labourers as of May 2014 are active, providing an activity rate of approximately 21.9%. The proportion of workers above the age of 50 has also increased from approximately 36.6% from 2009 to approximately 44.8% to 2013, coupled with the proportion of workers under the age of 40 decreasing from approximately 34.0% from 2009 to approximately 31.4% in 2013. The total number of active labour is believed to be insufficient for the expected growth in number and complexity of projects. This labour shortage is mainly due to (i) the decreasing number of young people entering the building industry; (ii) the increasing percentage of retirements in this industry; and (iii) the increasing demand for construction works in Hong Kong.
- **Increasing materials costs and average wages:** Another major threat is the rise in materials costs and hourly labour costs which are significant components in construction costs. For further analysis of the trend, please refer to the paragraph headed “Historical prices of raw materials and labour costs in Hong Kong” of this section.

### *Accidents in the building industry in Hong Kong*

Accidents are not uncommon in the building industry particularly for building construction works. Even though the number of accidents in Hong Kong has been increasing from approximately 2,755 to approximately 3,232 from 2009 to 2013 respectively, at a CAGR of approximately 4.1%, the accident rate per 1,000 workers in the construction industry fell from approximately 54.6 to approximately 40.8 from 2009 to 2013; the number of fatalities increased from approximately 19 in 2009 to approximately 22 to 2013, at a CAGR of approximately 3.7%, while the accident rate per 1,000 workers in the construction industry fell from approximately 0.376 to approximately 0.277 over the same period of time. This was due to an increase in the number of active employees over the same time period and the continuous safety and health improvements made and standards set by the Labour Department of Hong Kong. Given the aforesaid department’s commitment to strengthen supervision and support to contractors and workers on safety and health issues, it is expected that the accident rate will continue to follow its recent decreasing trend.

### COMPETITIVE ANALYSIS OF BUILDING INDUSTRY IN HONG KONG

#### Competitive landscape

The building industry in Hong Kong is highly competitive. However, there are different levels of competition depending on the types of works involved and particular types of works may be dominated by certain big players. Overall, the top ten contractors providing building construction works, electrical and mechanical engineering works and fitting-out works took up approximately 24.0% of the market share in terms of the total industry revenue for the 12 months ended 31 December 2013.

#### Factors of competition and barriers to entry

The following are some of the major factors of competition and barriers to entry to the building industry in Hong Kong:

- **Long track record and reputation for quality work:** In order to ensure work quality and building safety, the HK Government and private developers tend to cooperate mainly with contractors who have a long track record and can consistently deliver quality works. Generally, after having accumulated a certain amount of total contract value and

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experience, constructors can perform works with a higher total contract value in the public sector. New entrants to the market without track record may therefore be at a disadvantage for gaining large projects (such as those involving the HK Government) and obtaining contracts in general.

- **Long relationship with customers:** Contractors with an established business relationship with major developers in Hong Kong also have a better chance of obtaining their private building construction contracts. For example, having a good existing relationship may allow for first-hand information (such as an invitation to bid) about new projects, whereas new entrants may need to rely on public sources or active monitoring of tenders. New entrants without an established network may find it difficult to become aware about tenders or secure contract.
- **Cashflow and financial support:** Substantial capital is needed for this business, especially for obtaining machineries and raw materials, which are generally high-value items. It is difficult for new entrants without sufficient cash flow to survive in the building industry, particularly in relation to building construction works.

The following table sets out the top ten contractors engaging in building construction works, electrical and mechanical engineering works and fitting-out works in Hong Kong for the 12 months ended 31 December 2013 in terms of revenue and their background.

Rank	Headquarters	Revenue in 2013 (HK\$ million) and portion of total revenue	Number of projects in 2013	Key services
1	Competitor A Hong Kong	4,784 (4.6%)	55	Building, electrical and mechanical works and interior decoration for public housing, private housing, hospitals
2	Competitor B Hong Kong	4,010 (3.9%)	94	Building, electrical and mechanical works and interior decoration for public housing, private housing, medical institutions
3	Competitor C Hong Kong	3,537 (3.4%)	33	Building, electrical and mechanical works and interior decoration for public housing, private housing, institutions and commercial buildings
4	Competitor D Hong Kong	3,070 (3.0%)	22	Building, electrical and mechanical works and interior decoration for public housing, institutions and commercial buildings
5	Competitor E Hong Kong	2,447 (2.4%)	30	Building, electrical and mechanical works and interior decoration for hotels and private residential housing
6	Competitor F Hong Kong	2,112 (2.0%)	37	Building, electrical and mechanical works and interior decoration for public housing, private residential housing and sports institutes
7	Competitor G Hong Kong	1,899 (1.8%)	38	Building, electrical and mechanical works and interior decoration for public housing, private residential housing, commercial buildings and medical institutions
8	Competitor H Hong Kong	1,860 (1.8%)	13	Building, electrical and mechanical works and interior decoration for District Term Contract projects and institutes
9	Our Group Hong Kong	645 (0.6%)		For further details about our Group, please refer the section headed “Business” of this document.
10	Competitor I Hong Kong	489 (0.5%)	18	Building, electrical and mechanical works and interior decoration for commercial buildings and institutes
	<b>Others</b>	76,620 (76.0%)		
	<b>Total:</b>	103,473 (100.0%)		

Source: Industry Report

## HISTORICAL PRICES OF MAJOR RAW MATERIALS AND LABOUR COST IN HONG KONG

The following are details of historical prices of certain major raw materials and labour costs in the building industry in Hong Kong:

- **Steel reinforcements:** The average wholesale price of steel reinforcements increased from approximately HK\$4,856.9 per metric tonne in 2009 to its peak at approximately HK\$6,595.0 per metric tonne in September 2011 and subsequently dropped to

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## INDUSTRY OVERVIEW

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approximately HK\$5,282.2 per metric tonne in 2013. The intensifying European debt crisis, together with rising inflation and tightening monetary policy in the PRC led to difficulty in financing, which hampered the demand for steel reinforcement from downstream industries, and in particular, the demand for export and industrial production. Therefore, Hong Kong’s average price of steel reinforcements started to fall continually from October 2011 to the end of 2013, at a CAGR of approximately -0.9%.

- **Cement:** Hong Kong’s average wholesale price of cement grew substantially from approximately HK\$584.1 per metric tonne in 2009 to approximately HK\$698.5 per metric tonne in 2013, representing a CAGR of approximately 4.6%. Over the past five years, the average wholesale price of cement also increased at an average of approximately 4.6% every year. The annual growth rate was most significant from 2010 to 2011, reaching approximately 8.2%, attributed to the correction of the oversupply of cement in the market. Compared to the average wholesale price of steel reinforcements, the world economic situation did not pose a significant impact on the average wholesale price of cement in Hong Kong. The rising price trend was mostly attributed to (i) the appreciation of the RMB which resulted a higher commodity prices; (ii) the accelerated pace of inflation in Hong Kong; and (iii) the strong construction works demand in Hong Kong and the PRC.
- **Labour costs:** The average wage of construction workers in Hong Kong increased from approximately HK\$61.8 per hour to approximately HK\$74.7 per hour, at a CAGR of approximately 4.8%. The increase in the average hourly wage of construction workers in Hong Kong was attributable to the labour shortage in the building industry.

### MARKET FOR FITTING-OUT WORKS IN THE PRC (PRIVATE SECTOR ONLY)

Revenue from the fitting-out works in the PRC grew significantly from approximately HK\$2,099 billion in 2009 to approximately HK\$6,163 billion in 2013, at a CAGR of approximately 14.6%. The prosperous economy, coupled with the rapid urbanisation, accelerated the development of the real estate market as well as the construction industry, and in turn increased demand for fitting-out works in the PRC. The average GDP growth rate in The PRC from 2009 and 2013 was approximately 8.9%, the urbanisation rate in the PRC rose from approximately 48.3% to approximately 53.7% over the same period; while the revenue from fitting-out works in the PRC grew by approximately 72.7%.

It is expected that revenue from fitting-out works in the PRC will increase at a CAGR of approximately 11.4%, from approximately HK\$4,008 billion to approximately HK\$6,163 billion in the next five years. The PRC is still exhibiting rapid development in terms of urbanisation, industrialisation, and marketisation. Such development will continue to promote the market for fitting-out works in the PRC. Increasing investment by private sector in hotels, commercial complexes, together with the more refined decoration for the residential buildings, is anticipated to boost demand for fitting-out works in the PRC with expected revenue of approximately HK\$6,163 billion in 2018.

### Trends, developments and market drivers

The following are some of the major trends and developments to the market for fitting-out works in the PRC:

- **Standardisation of fitting-out design and the mass production of fitting-out materials:** The market for fitting-out works is becoming more standardised in the PRC. The PRC government is promoting the phasing out of roughcast apartments and the phasing in of fully fitted out apartments. This concept drives the mass production of fitting-out materials and increases the efficiency and quality of the fitting-out works. When the design is standardised, manufacturers of fitting-out materials start to minimise the unit of such materials, which enhances the flexibility of the material application and adaptability, able to cater to various design styles and demands. Increasingly, fitting-out contractors use standardised materials in their fitting-out projects.
- **The environmental-friendly concepts in the fitting-out works:** In an effort to address the pollution issue, the concepts of low carbon production, energy efficiency, and environmental-friendliness have been catching on in the building industry in the PRC,

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including the market for fitting-out works. In recent year, there is a consensus in the building industry to opt for green design, construction material and construction work process in the PRC. Therefore, the emphasis of the green concept is becoming a notable aspect in fitting-out works.

- **Expand service scope to include design and material procurement:** Fitting-out contractors have increasingly expanded their scope of services from merely carrying out fitting-out works to assisting in design, material procurement, equipment installation, after-sale services. The expansion of the service scope proves to be effective in the production value chain and be better in catering to customer’s demands.

The following are some of the major market drivers to the market for fitting-out works in the PRC:

- **Increasing population, coupled with rapid urbanisation:** Increasing population, coupled with rapid urbanisation, boosts demand for fitting-out works in the PRC. The population in the PRC reached approximately 1.4 billion as of 2014 and the urbanisation rate grew from approximately 48.3% in 2009 to approximately 53.7% in 2013, the demand for residential buildings as well as public facilities has been growing. This in turn creates opportunities for the market for fitting-out works in the PRC.
- **Accelerated economic development and prosperous real estate market:** With accelerated economic development, the investment in fixed assets increased persistently in the past five years at a CAGR of approximately 18.8%, revenue from fitting-out works in the PRC grew at a CAGR of approximately 14.6% from approximately HK\$2,099 billion to approximately HK\$6,163 billion over the same period of time. Rapid economic development gives rise to the investment in fixed assets; while prosperous real estate market boosted by increasing investment in fixed assets is always one of the key drivers in the market for fitting-out works in the PRC as more new buildings would be completed. Moreover, the rapid economic development leads to a rising living standard in the PRC and people tend to demand more and better fit-out buildings also boosting demand for fitting-out works.
- **Increasing domestic business activities and flourishing tourism in the PRC:** Growing number of local business activities, coupled with hosting of major international events, promote tourism in the PRC. There has been a rising demand for hotels, in particular the star hotels, resulted from the increasing number of tourists and business visitors. This in turn drives the market for fitting-out work in the PRC.
- **Stringent requirements and standards in the quality of construction works:** According to the National New-type Urbanisation Plan (2014-2020) 《國家新型城鎮化規劃(2014-2020年)》, more stringent requirements and standards in the quality of construction works, including green urban construction, real estate, shantytowns, etc., are envisaged. In order to achieve stricter requirements and standards in the quality of construction works and approximately RMB 4,000 to 5,000 billion is expected to invest annually in the building industry. Such will drive growth to the building industry including the market for fitting-out works in the PRC.

### MAJOR THREATS TO THE MARKET FOR FITTING-OUT WORKS IN THE PRC

The following are some of the major threats to the market for fitting-out works in the PRC:

- **The PRC government policies to control real estate market:** There has been a certain cool-down in the PRC real estate market due to policies implemented by the PRC government. Some of these policies have also led homebuyers to hold cash and wait for certain housing policy relaxation. Sluggish real estate market may cause developers to rely on price cuts to boost sales, which in turn may lead to less fitting-out works to lower construction costs. Otherwise, such developers may also invest less on real estate markets in general.
- **Price competition leading to reputation for bad quality in industry:** Price competition in the market for fitting-out works in the PRC is still at an early stage of development and the size of contractors involved are usually small to medium sized. These contractors usually

## INDUSTRY OVERVIEW

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compete on price, instead of design or technology. In order to win the projects at a more competitive price, shoddy works with inferior materials may result. This will hinder the development and lead to a threat to the reputation of the market for fitting-out works in the PRC.

- ***Insufficient financing:*** Flexible cash flow is important as contractors generally have to pay the bid bond in advance so as to provide a guarantee to the project owner, developer, or main contractor. This is to show that such contractor will take the job if being selected or to ensure the fitting-out work contractor has the financial means to complete the project for the price quoted in the bid. Apart from the bid bond, the contractors generally have to pay the material costs in advance, and other bond and deposit for quality assurance, safety assurance, and project completion assurance. However, most of the fitting-out work contractors are small or medium sized and are private companies. Bank loans seem to be the only source of financing channel for such contractors in the PRC. The tight cash flow may limit the development of market for fitting-out works in the PRC.

### Factors of competition and barriers to entry

The following are some major factors of competition to the market for fitting-out works in the PRC:

- ***Effective cost management:*** Having gone through high inflation in the past decade, there is a rapid growth in the labour cost as well as building material cost in the market for fitting-out works in the PRC. In order to stay competitive, ability to manage costs, improve the efficiency in construction, and shorten the project timeline become key management skills as well as being a factor of competition.
- ***Impressive track record:*** Impressive track record is one of the major factors of competition as fitting-out contractors who have impressive track record are more likely to win the projects, especially in the high-end and luxurious fitting-out work market in the PRC. Capability to design and carry out the fitting-out work, and experience of undertaking famous landmark projects are key competitive factors.

The following are some major entry barriers to the market for fitting-out works in the PRC:

- ***Reputation and track record:*** Developers and main contractors prefer to outsource the fitting-out works to contractors with better track record and reputation, especially for high-end and luxurious development. It is because developers and main contractors usually need to bear the risk if any parts of the construction works, including the fitting-out works, are shoddy works with inferior materials. New entrants are yet to have well-established reputation and track record, and in turn these become the entry barriers to new entrants to enter the fitting-out work industry in the PRC.
- ***Impressive design:*** With robust economy, people desire a stylish living environment. Impressive fitting-out work design on office buildings, residential buildings, retail space, hotel buildings, resorts, etc., are in high demand. New entrants without any experience and in-depth knowledge of what the market needs and providing impressive designs may find it difficult to be engaged for providing fitting-out works in the PRC.
- ***Strong financial strength:*** Strong financial strength is needed for fitting-out contractors to stay in the industry. It is because contractors usually have to pay the bid bond and material costs in advance, and other bond and deposit for quality assurance, safety assurance, and project completion assurance during and after the construction. New entrants without strong financial support is an entry barriers for new entrants to enter the market for fitting-out works in the PRC.

## **REGULATORY OVERVIEW**

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This section sets forth a summary of the material laws and regulations applicable to our business in Hong Kong and the PRC.

### **HONG KONG**

#### **A. Construction labour, health and safety**

##### *Factories and Industrial Undertakings Ordinance*

The Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) provides for the safety and health protection to workers in an industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, every proprietor shall take care of the safety and health at work of all persons employed by it at an industrial undertaking by:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- as regards any workplace under the employer’s control;
- maintaining the workplace in a condition that is, so far as reasonably practicable, safe and without risks to health;
- providing and maintaining safe access to and egress from the workplaces that are, so far as reasonably practicable, safe and without any such risks; and
- providing and maintaining a safe and healthy work environment.

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

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong), including (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) the duty to comply with miscellaneous safety requirements; and (vi) provision of first aid facilities. Non-compliance with any of these rules commits an offence and different levels 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*

The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) 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 work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, 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 work environment.

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

The Commissioner for Labour may also issue improvement notices against contravention of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition or use of workplace which may create imminent risk of death or serious bodily injury to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

### *Employees' Compensation Ordinance*

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

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 or dies arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

## **REGULATORY OVERVIEW**

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According to Section 40 of the Employees’ Compensation Ordinance, all employers (including contractors and sub-contractors) 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). 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 sub-contractor(s) under the Employees’ Compensation Ordinance and at common law.

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 imprisonment for two years.

Pursuant to Section 24 of the Employees’ Compensation Ordinance, a principal contractor shall be liable to pay compensation to sub-contractors’ employees who are injured in the course of their employment to the sub-contractor. The principal contractor is, nonetheless, entitled to be indemnified by the sub-contractor 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.

### *Employment Ordinance*

A principal contractor is subject to the provisions on sub-contractor’s employees’ wages in the Employment Ordinance. Section 43C of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) provides that if any wages become due to an employee who is employed by a sub-contractor on any work which the sub-contractor 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 the principal contractor and superior sub-contractor or superior sub-contractor jointly and severally. A principal contractor’s and superior sub-contractor’s (where applicable) liability shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of the building work; and (b) to the wages due to such an employee for two months (such months shall be the first two months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from sub-contractor must serve a notice in writing on the principal contractor within 60 days after the wage due date. A principal contractor and superior sub-contractor (where applicable) shall not be liable to pay any wages to the employee of the sub-contractor if that employee fails to serve a notice on the principal contractor.

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

A principal contractor who without reasonable excuse fails to serve notice on the superior sub-contractors shall be guilty of an offence and shall be liable on conviction to a fine at level 5 (currently at HK\$50,000).

## **REGULATORY OVERVIEW**

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

### *Occupiers Liability Ordinance*

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

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*

Pursuant to Section 38A of the Immigration Ordinance (Chapter 115 of the Laws of Hong Kong), a construction site controller (i.e. the principal or main contractor and includes a sub-contractor, owner, occupier or other person who has control over or is in charge of a construction site) should 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*

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) 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 this Ordinance is void.

## **REGULATORY OVERVIEW**

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### **B. Environmental protection**

#### *Air Pollution Control Ordinance*

The Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) 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 to 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) Regulation (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carrying out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

#### *Noise Control Ordinance*

The Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) 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 general construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling between 7 a.m. and 7 p.m. on any day, not being a general holiday, construction noise permits are required from the Noise Control Authority in advance.

Under the Noise Control Ordinance, noisy construction work and the use of powered mechanical equipment in populated areas are not allowed between 7 p.m. and 7 a.m. or at any time on general holidays, unless prior approval has been granted by the Noise Control Authority through the construction noise permit system. Certain equipment is also subject to restrictions when its use is allowed. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Noise Control Authority. Percussive pile-driving is allowed on weekdays only with prior approval, in the form of a construction noise permit from the Noise Control Authority. Any person who is in contravention of the aforesaid provisions, according to the Noise Control Ordinance, shall be liable (a) on first conviction to a fine of HK\$100,000; (b) on second or subsequent conviction, 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.

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### *Water Pollution Control Ordinance*

The Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) controls the effluent discharged from all types of industrial, manufacturing, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the Director of Environmental Protection.

All discharges, other than domestic sewage to a communal sewer or unpolluted water to a communal drain, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent and the general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters.

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

### *Waste Disposal Ordinance*

The Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) controls the production, storage, collection, treatment, reprocessing, recycling and disposal 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, particularly 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 prescribed facilities a main contractor who undertakes construction work with a value of HK\$1 million or above will be required to, within 21 days after being awarded the contract, make an application to the Director of Environmental Protection to establish a billing account to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract.

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Under the Waste Disposal (Chemical Waste) (General) Regulation, anyone who produces chemical waste or causes it to be produced has to register as a chemical waste producer. The waste must be packaged, labelled and stored properly before disposal. Only a licensed collector can transport the waste to a licensed chemical waste disposal site for disposal. Chemical waste producers also need to keep records of their chemical waste disposal for inspection by the staff of the Environmental Protection Department.

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 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 a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for six months for the first offence, HK\$500,000 and to imprisonment for six months for a second or subsequent offence.

### *Dumping at Sea Ordinance*

Under the Dumping at Sea Ordinance (Chapter 466 of the Laws of Hong Kong), any waste producers involved in marine dumping and related loading operations are required to obtain permits from the Director of Environmental Protection Department.

Under the Dumping at Sea Ordinance, a person who except under and in accordance with a permit, does anything or causes or allows another person to do anything for which a permit is needed commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months on a first conviction; and HK\$500,000 and to imprisonment for two years on a second or subsequent conviction; and in addition, to a further fine of HK\$10,000 for each day if the court is satisfied that the operation has continued.

### *Environmental Impact Assessment Ordinance*

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

According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, dredging operation, residential and other developments, etc.) without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (a) on a first conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for six months; (b) on a second or subsequent conviction on indictment to a fine of HK\$5,000,000 and to imprisonment for two years; (c) on a first summary conviction to a fine at level 6 (being HK\$100,000 as at the Latest Practicable

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Date) and to imprisonment for six months; (d) on a second or subsequent summary conviction to a fine of HK\$1,000,000 and to imprisonment for one year, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

### **C. Contractor licensing regime**

#### *General building contractor*

Under the current contractor registration system in Hong Kong, a contractor must register with the Buildings Department either as a general building contractor or as a specialist contractor or as a minor works contractor. Registered general building contractors may carry out general building works and street works which do not include any specialised works designated for registered specialist contractors.

Under Section 8B(2) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), an applicant for registration as a general building contractor or as a specialist contractor must satisfy the Buildings Authority on the following aspects:

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

Under section 8C(2)(c) of the Buildings Ordinance, a registered contractor should apply to the Buildings Department for renewal of registration not earlier than four months and not later than 28 days prior to the date of expiry of the registration. Application for renewal of registration received by the Buildings Department outside the specified time limit under section 8C(2)(c) will not be accepted. The application should comprise:

- (a) a duly completed specified form;
- (b) declarations in Buildings Department standard forms covering exhaustively the conviction/disciplinary/ suspension records of the applicant and its key personnel i.e. the authorised signatory(ies), the technical director(s) and the other officer(s) in certain aspects;
- (c) a job reference on a minimum of one relevant building project;
- (d) certain documents relating to business registration;

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- (e) the prescribed fee in accordance with Building (Administration) Regulation (Chapter 123A of the Laws of Hong Kong).

In general, an application for renewal of registration would not be referred to the Contractors Registration Committees, an independent bodies appointed by the Buildings Department under Section 8 of the Buildings Ordinance for interview and assessment, except in the following circumstances:

- (a) the contractor has been inactive in relevant building works in the past registration period (i.e. without a job reference on a minimum of one relevant building project); or
- (b) there have been new incidents or circumstances that require further consideration on the suitability of the contractor’s registration. New incidents or circumstances include, but not limited to, the contractor’s records in respect of the aspects stipulated in paragraph (b) above and subject to the following approach adopted by the Buildings Department in relation to labour safety, public health and environmental offences and records of suspension from tendering by the WBDB, the Housing Authority or their related departments in determining if a contractor is required to attend an interview:
  - (a) non-building works related labour safety offences, e.g. failure to ensure the wearing of safety helmet and the use of goggles, will not be taken into consideration. Generally speaking, an offence relating to the course of constructing the works or the manner in which the works are being carried out is considered as an offence relating to building works;
  - (b) a contractor who has been convicted of a serious labour safety offence (e.g. involving a fatal incident or amputation of limb) is required to attend an interview;
  - (c) a contractor who has been convicted of 7 or more labour safety offences committed within a rolling six months is required to attend an interview;
  - (d) a contractor who has been convicted of 4 or more offences under section 27(3) of the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) committed on the same site within a rolling three months is required to attend an interview;
  - (e) a contractor who has been convicted of any environmental offence involving an imprisonment sentence will be required to attend an interview; and
  - (f) for a contractor who has been suspended from tendering by the WBDB, the Housing Authority or their related departments, the Buildings Department will consider the reasons of the suspension. In general, only factors which infer deficiencies of the contractors in technical competence and management ability, and factors related to standard of works, misconduct and site safety will be taken into consideration.

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### *Specialist contractor*

For registration as a registered specialist contractor, the applicant must satisfy the Buildings Department that it has the necessary experience and, where appropriate, professional and academic qualifications, to undertake work in the specialist category and should also demonstrate that it has the access to engaging qualified persons to carry out the relevant specialised duties, for example, competent person (logging) for ground investigation field works.

### *Minor works contractor*

For registration as a Registered Minor Works Contractor, the applicant must satisfy the Buildings Department that it has the necessary experience and, where appropriate, professional and academic qualifications, to undertake minor works in the designated class and category and should also demonstrate that it has the access to engaging qualified persons to carry out the relevant minor works duties.

Under the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong) (“**Minor Works Regulation**”), a subsidiary legislation under the Buildings Ordinance, ‘minor works’ are classified into three classes according to their nature, scale and complexity and the risk and safety they pose. The works are further classified into types and items that correspond to the specialisation of works in the industry. Class I minor works are relatively more complicated and require higher technical experience and more stringent supervision and thus requires the appointment of a prescribed building professional (“**Building Professional**”) (such as an authorised person and where necessary, may include a registered structural engineer and/or a registered geotechnical engineer) and a prescribed registered contractor (“**Registered Contractor**”). The other two classes of minor works, Class II and Class III, works are comparatively more simple.

### *Electrical contractor*

All contractors engaged in electrical work on fixed electrical installations must be registered with the Electrical and Mechanical Services Department. To be qualified as a registered electrical contractor, an applicant must either employ at least one registered electrical worker or:

1. if the applicant is an individual, he/she must be a registered electrical worker; or
2. if the applicant is a partnership, at least one of the partners must be a registered electrical worker.

Under Regulation 13 of the Electricity (Registration) Regulations (Chapter 406D of the Laws of Hong Kong), a registered contractor should apply to the Director of Electrical and Mechanical Services for renewal of registration not earlier than four months and not later than one month prior to the date of expiry of the registration. The application should comprise:

- (a) a duly completed specified form;

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- (b) a copy of business registration certificate of the contractor;
- (c) a copy of the certificate(s) of registration of the registered electrical worker(s) of the contractor;
- (d) documentary proof(s) of employment of registered electrical worker(s) including a letter confirming the employment of the registered electrical worker(s) of the contractor; and
- (e) the prescribed fee in accordance with the Electricity (Registration) Regulations.

### *Contractor list maintained by the WBDB*

In order to tender for HK Government contracts, a contractor must be accepted on the Contractor List maintained by the WBDB. Although approvals granted by the WBDB are not required to be renewed annually, audited accounts of the approved contractors are submitted to the WBDB annually (in addition, a Group C contractor is also required to submit half-yearly management accounts) and may be produced to relevant HK Government works departments prior to the contract award in order to review the financial position of the approved contractors to ensure that they meet the capital requirements as set out by the WBDB. If any approved contractor fails to meet the capital requirements in a particular category, it will not be eligible for any contract in that category. In the event the approved contractor fails to submit the accounts or fails to cover any shortfall in the required capital requirements within the prescribed period, regulatory actions such as suspension of tendering rights may be taken by the WBDB against such approved contractor.

The Contractor List is divided into five categories, namely, roads and drainage, port works, waterworks, buildings and site formation. There are three groups in each of the works categories (arranged in ascending order), namely Group A (except that there are no Group A in port works and site formation categories), Group B and Group C, with the highest rank being Group C. Each group has its particular tendering limits. Other than in the most exceptional circumstances, a contractor will be admitted initially on probation in the appropriate works category and group. According to the ETWB Handbook, the minimum probationary period is 24 months. After the probationary period, approved contractors may apply to the WBDB for confirmed status provided they have met the following requirements:

- (i) the technical and management criteria for confirmed status of each category of works; and
- (ii) the capital requirements applicable to confirmed status for each category of works.

A contractor may apply for “confirmed” status after the satisfactory completion of works appropriate to its probationary status. “Confirmed” contractors may apply to be elevated to a higher group which is subject to similar but more stringent criteria/ requirements to that described above.

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It is a requirement of the WBDB that all Group B and Group C contractors in Hong Kong must obtain ISO 9001/2:1994 or ISO 9001:2000 certification as one of the qualifications for tendering for HK Government contracts.

The following table sets out the value of works for which contractors in the respective categories and statuses may tender:

<b>Category</b>	<b>Authorised contract value</b>
Group A	contracts of value up to HK\$75 million
Group B	contracts of value up to HK\$185 million
Group C (confirmed)	contracts of any value exceeding HK\$185 million

### *Specialist list maintained by the WBDB*

The Specialist List shall comprise suppliers and contractors who are approved for carrying out public works in one or more of the 49 categories. Some contractors within a category are further divided into classes according to the type of works within that particular category and groups according to the value of contracts for which they are normally eligible to tender. Tender limits are applicable to 8 categories of works in the Specialist List.

Contractors qualified/licensed with the WBDB are subject to a regulatory regime which is put in place to ensure that standards of financial capability, expertise, management and safety are maintained by contractors carrying out HK Government works.

### *Regulatory actions against approved contractors by the Development Bureau*

The Development Bureau may take regulatory actions against failure to meet the financial criteria within prescribed time, unsatisfactory performance, misconduct or suspected misconduct, poor site safety record, and poor environmental performance, court convictions such as contravention of site safety legislation and Employment Ordinance and employment of illegal worker etc. For example, if a qualified contractor is convicted of a series of safety or environmental offences within a short period of time in a project, or if a fatal construction accident occurs at a construction site for which the contractor is responsible, the HK Government may take regulatory actions against the responsible contractor.

Regulatory actions include removal, suspension (which means a contractor is prohibited from tendering for works of the relevant category during the suspension period), downgrading (which includes downgrading or demoting the contractor’s qualification to a lower status or class in all or any specified category), depending on the seriousness of the incident triggering the regulatory actions. Please refer to in the section headed “Risk Factors — There is no assurance that we will be eligible for or succeed in the tender process” of this document for risk associated with being a HK Government contractor.

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### **THE PRC**

#### **LAWS AND REGULATIONS ON THE INDUSTRY**

Pursuant to the Construction Law of the PRC 《中華人民共和國建築法》 promulgated by the Standing Committee of the National People’s Congress (全國人大常委會) (“SCNPC”) on 1 November 1997 and amended on 22 April 2011, construction enterprises, reconnaissance enterprises, design enterprises and supervisory enterprises shall possess registered capital required by national regulations, professional and technical staff with statutory practicing qualifications specific to the construction activities engaged and requisite technical equipment for the relevant construction activities, and may not engage in construction activities within the scope of their qualification class before passing qualification examinations and obtaining appropriate qualification certificates.

#### **Construction engineering quality**

There are several laws and regulations regulating construction engineering quality, including but not limited to the Administrative Rules on Construction Engineering Quality 《建設工程質量管理條例》 promulgated on 30 January 2000 and effective from 30 January 2000, and the Provisions on the Supervision and Administration of the Quality of Housing Building Projects and Municipal Infrastructure Projects 《房屋建築和市政基礎設施工程質量監督管理規定》 promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房城鄉建設部) (“MOHURD”) on 1 August 2010 and effective from 1 September 2010. Under such regulations, construction enterprises engaged in construction engineering services shall obtain appropriate qualification certificates according to laws and undertake project services within the scope of their qualification class. A construction enterprise is prohibited to undertake projects beyond the scope of its qualification class or in the name of other construction enterprises, or allow other companies or individuals to undertake projects under its name. The construction authority at or above the county level shall supervise and administer the enterprises who are responsible for the body quality, construction, reconnaissance, design, supervisory and quality detection within its administrative area under the relevant laws, regulations and compulsory standards of construction.

#### **Bidding and tendering**

Pursuant to the Bidding and Tendering Law of the PRC 《中華人民共和國招標投標法》 promulgated by the SCNPC on 30 August 1999 and effective from 1 January 2000, and the Implementation Rules on the Bidding and Tendering Law of the PRC 《中華人民共和國招標投標法實施條例》 promulgated on 20 December 2011 and effective from 1 February 2012, the bidding process is required for construction, reconnaissance, design and supervisory services relating to social and public benefits and public securities, projects financed wholly or partly with state-owned funds or by state financing, and projects financed with funds from an international organisation or loans or aiding funds from foreign governments as well as purchase of important equipment and materials related to the construction projects, subject to the contract sum and project size as specified by relevant provisions.

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### Qualification certificate

Pursuant to the Administrative Provisions on the Qualifications of Enterprises in the Construction Industry 《建築業企業資質管理規定》 promulgated by the MOHURD on 26 June 2007 and effective from 1 September 2007, the qualifications of enterprises in construction industry is classified into three categories, namely, main contractors that are qualified in undertaking the whole of a construction project (“main contractors”, 施工總承包), professional services contractors that are qualified in undertaking a specialised contract (“professional services contractors”, 專業承包) and labour services sub-contractors that are qualified in undertaking a labour service by sub-contract (“labour services sub-contractors”, 勞務分包). A main contractor can contract for the overall works for, or the main body of, a project, can perform all works that it contracted for by itself, or sub-contract non-core construction works or qualified labour services to qualified professional services contractors or labour services sub-contractors. A qualified professional service contractor may enter into a contract to provide professional services sub-contracted out by a main contractor, or by the MOHURD under relevant provisions. Under such contracts, a qualified professional services contractor may undertake all of the contracted work by itself, or sub-contract out the labour assignment to qualified labour services sub-contractors. A qualified labour services sub-contractor may enter a contract to provide labour services contracted out by a main contractor or a professional services contractor.

Pursuant to the Standards for Qualification Grade of Enterprises in the Construction Industry 《建築業企業資質等級標準》 promulgated by the MOHURD on 20 April 2001 and effective from 1 July 2001, the enterprise in the construction industry shall engage in the construction activities within its grade, in terms of its span, contract sum, construction area and total weight of construction corresponding to its qualification grade.

Pursuant to the Rules for the Administration of Foreign-invested Construction Enterprises 《外商投資建築業企業管理規定》 promulgated on 27 September 2002 and effective from 1 December 2002, the investment of the Chinese investor of sino-foreign equity joint ventures should comprise at least 25% of the register capital. Meanwhile, sino-foreign equity joint ventures should contract projects within the authorised scope corresponding to its aptitude class. Only the following kinds of projects shall be within the business scope of foreign-owned construction enterprises according to their aptitude class: (i) built exclusively with foreign investment and foreign grant; (ii) financed by foreign financial institutions or awarded by international bidding according to loan terms; (iii) sino-foreign cooperation projects where the foreign investment is not less than 50%, or where the foreign investment is less than 50% and approved by the relevant PRC construction authorities that it is unable to execute independently by PRC construction enterprise due to the technical difficulty; and (iv) PRC invested and sino-foreign cooperation projects where it had been approved by the relevant PRC construction authority that it is unable to execute independently by PRC construction enterprise due to the technical difficulty. As a main contractor of a project, the construction enterprise with foreign investment itself should undertake the construction task of the major structure of the project.

## **REGULATORY OVERVIEW**

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Pursuant to the Administrative Rules on Construction Engineering Reconnaissance and Design 《建設工程勘察設計管理條例》 promulgated on 25 September 2000, construction engineering reconnaissance and design services shall be contracted through a tendering process in accordance with the Tender Law of the PRC 《中華人民共和國招投標法》.

Pursuant to the Administrative Regulations on Foreign-invested Construction Engineering Design Enterprises 《外商投資建設工程設計企業管理規定》 promulgated on 27 September 2002 and with effective from 1 December 2002, the application and approval procedures for establishment and qualifications of foreign-invested construction engineering design enterprises are subject to grading and classification management. To apply for the establishment of a foreign-invested construction engineering design enterprise with grade A of construction engineering design qualification and category A or category B of other construction design qualifications, its application shall be reviewed and approved by the foreign trade and economic administrative authorities under the State Council, and its qualifications shall be reviewed and approved by the construction administrative authorities under the State Council. To apply for the establishment of a foreign-invested construction engineering design enterprise for category B of construction engineering design qualification and category C or below of other construction engineering design qualifications, its application shall be reviewed and approved by the foreign trade and economic administrative authorities under the people’s governments of provinces, autonomous regions and municipalities, and its qualifications shall be reviewed and approved by the construction administrative authorities under the people’s governments of provinces, autonomous regions and municipalities. Pursuant to the Supplementary Provisions of the Administrative Regulations on Foreign-invested Construction Engineering Design Enterprises promulgated on 19 December 2003, the Administrative Regulations on Foreign-invested Construction Engineering Design Enterprises and relevant administrative requirements on qualifications of construction engineering design enterprises are applicable for establishment of a construction engineering design enterprise in the PRC as invested by services providers based in Hong Kong and Macau and the application of its qualifications. On 5 January 2007, the MOFCOM and MOHURD jointly promulgated the Implementation Rules of the Administrative Regulations on Foreign-invested Construction Engineering Design Enterprises 《外商投資建設工程設計企業管理規定實施細則》, which detailed the requirements on investors and track records of foreign-invested construction engineering design enterprises.

Pursuant to the Administrative Regulations on Construction Engineering Reconnaissance and Design Qualification 《建設工程勘察設計資質管理規定》 promulgated on 26 June 2007 and became effective from 1 September 2007, engineering design qualifications are classified into integrated engineering design qualification, industry engineering design qualification, professional engineering design qualification and specific engineering design qualification. An enterprise with specific engineering design qualification, which is classified into categories A and B, may undertake the specific engineering design business corresponding to its category. Engineering design qualifications of Category B (excluding those for railway, transportation, hydraulic engineering, information industry, civil aviation and other industries) and below shall be granted by construction administrative authorities under the people’s governments of provinces, autonomous regions and municipalities.

## **REGULATORY OVERVIEW**

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Pursuant to the Notice on Printing and Distributing the Standards on Construction Engineering Design Qualification 《關於印發〈工程設計資質標準〉的通知》 issued by the MOHURD on 29 March 2007, the standards include the types of construction engineering design, staffing of major professional and technical staff and classification of scale in relation to construction engineering design services in all 21 sectors. The standards have four sub-standards, namely, integrated engineering design qualification, industry engineering design qualification, professional engineering design qualification and specific engineering design qualification.

### **Work safety at construction projects**

Pursuant to the Work Safety Law of the PRC 《中華人民共和國安全生產法》 promulgated by the SCNPC on 29 June 2002 and amended on 27 August 2009, the production and business operation enterprises shall be equipped with the conditions for safe work as provided in the present law and other relevant laws, administrative regulations, national standards and industrial standards, and shall offer education and training programs to the employees thereof regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, know the relevant regulations and rules for safe work and safe operation, and master the skills for safe operation for their own positions.

Pursuant to the Regulation on Administration of Work Safety of Construction Engineering 《建設工程安全生產管理條例》 promulgated by the State Council on 24 November 2003 and effective from 1 February 2004, the employers (建設單位), construction enterprises (施工單位), reconnaissance enterprises (勘察單位), design enterprises (設計單位) and supervisory enterprises (監理單位) shall be responsible for the work safety in the construction project under relevant laws and regulations. At the work site, the main contractor and qualified sub-contractors shall be jointly and severally liable for the work safety of a sub-contracting project. Where the main contractor legally sub-contracts the construction project to other enterprises, the contract between the main contractor and sub-contractor shall specify their respective rights and obligations in respect of the work safety. However, the main contractor shall be primarily responsible for the work safety.

Pursuant to the Regulation on Work Safety Licenses 《安全生產許可證條例》 promulgated by the State Council and effective on 13 January 2004 and the Administrative Provisions on the Work Safety License of Construction Enterprises 《建築施工企業安全生產許可證管理規定》 promulgated by the MOHURD and effective on 5 July 2004, a construction enterprise without a work safety license shall not engage in construction activities.

Pursuant to the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents 《生產安全事故報告和調查處理條例》 promulgated by the State Council on 9 April 2007 and effective from 1 June 2007, after the occurrence of an accident, the relevant on-site personnel in the accident shall immediately report it to the person in-charge; the person in-charge shall report it to the work safety authority and relevant authorities responsible for work safety of the PRC government at or above the county level at the place of occurrence of the accident within one hour after receiving the report.

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## REGULATORY OVERVIEW

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### Fire control

Several laws and regulations regarding specific fire protection in the construction projects, including but not limited to the Fire Protection Law of the PRC 《中華人民共和國消防法》 promulgated by the SCNPC on 28 October 2008 and effective on 1 May 2009, the Provisions on the Supervision and Administration of Fire Protection of Construction Projects 《建設工程消防監督管理規定》 as amended by the Ministry of Public Security on 17 July 2012, the Provisions on the Supervision and Inspection over Fire Protection 《消防監督檢查規定》 amended by the Ministry of Public Security on 17 July 2012 and the Interim Measures of Inspection and Evaluation to Fire Protection Construction 《建築工程消防驗收評定暫行辦法》 promulgated by the Ministry of Public Security in 2010. According to such laws and regulations, a construction project shall obtain approval from or filing with relevant public security and fire protection authorities for fire protection design before construction commences and is subject to a fire protection as-built acceptance inspection. The construction enterprises, reconnaissance enterprises, design enterprises and supervisory enterprises shall conform to the national fire protection technical standards for project construction, and shall be jointly and severally responsible for the quality of fire protection design and construction under relevant laws and regulations. The public security organ of a local government at or above the county level shall supervise and administer the fire protection work within its administrative area.

### Inspection upon completion

After completion of construction works for a project, the employer must organise an acceptance examination by relevant government authorities and experts according to the Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure 《房屋建築和市政基礎設施工程竣工驗收規定》 promulgated by the MOHURD on 2 December 2013. The employer must also report details of the acceptance examination according to the Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects 《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》 as amended by the MOHURD on 19 October 2009. A construction project may not be handed over to the customer until and unless it has satisfactorily passed the necessary acceptance examination. Where a construction project is developed in phases, an acceptance examination may be carried out for each phase completion.

### Sub-contract

The sub-contract of house-building and municipal infrastructure construction project must comply with various laws and legal requirements, including but not limited to Measures for the Administration on the Construction by Sub-contract of House-building and Municipal Infrastructure Projects 《房屋建築和市政基礎設施工程施工分包管理辦法》 promulgated by the MOHURD on 3 February 2004 and Opinions on Further Strengthening Supervision on Construction Market 《關於進一步加強建築市場監管工作的意見》 promulgated by the MOHURD and effective on 24 June 2011.

### Environment protection

There are several laws and regulations regulating environment protection in the construction industry of the PRC, including but not limited to the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》, Law of the PRC on Appraising of Environment Impacts 《中華人民共

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和國環境影響評價法》and Regulations of Environment Protection in Construction Projects《建設項目環境保護管理條例》. Under such laws and regulations, a construction project shall obtain approval from or filing with relevant environment protection authorities for environment protection before construction commences, and upon completion of a construction project, file an application with the relevant environment protection authorities for acceptance checks on completion of matching construction of environmental protection facilities required for the construction project.

### **LAWS AND REGULATIONS ON FOREIGN-INVESTED ENTERPRISES**

Pursuant to the Foreign-owned Enterprise Law of the PRC《中華人民共和國外資企業法》promulgated on 12 April 1986 and amended on 31 October 2000, and the Rules for the Implementation of the Wholly Foreign-Owned Enterprise Law of the PRC《中華人民共和國外資企業法實施細則》promulgated on 12 December 1990 and amended on 19 February 2014, a wholly foreign-owned enterprise (“WFOE”) is a legal entity with the capacity to bear civil liabilities, to enjoy civil rights and to own, use and sell properties independently. The registered capital of a foreign-owned enterprise must be contributed by foreign investors. The liability of a foreign investor is limited to the amount of the registered capital for which it agrees to subscribe. According to the relevant laws and regulations of the PRC, foreign investors are allowed to pay the amount of the registered capital periodically, and the registered capital must be injected within the specified period as approved by the MOFCOM or its authorised organisations.

Pursuant to the PRC Law on Sino-foreign Equity Joint Ventures《中華人民共和國中外合資企業法》promulgated on 15 March 2001 and the Regulations for the Implementation of the PRC Law on Sino-foreign Equity Joint Ventures《中華人民共和國中外合資經營企業法實施條例》promulgated on 22 July 2001, the proportion of the investment contributed by the foreign joint ventures shall generally not be less than 25% of the registered capital of a joint venture. The parties to the joint venture shall share the profits, risks and losses in proportion to their respective contributions to the registered capital.

### **LAWS AND REGULATIONS ON LABOUR SERVICES**

#### **Labour contract**

Pursuant to the Labour Contract Law of the PRC《中華人民共和國勞動合同法》promulgated on 29 June 2007 and amended on 28 December 2012, (i) if the employee works for the employer for more than one month but less than one year without labour contract, the employer shall pay twice of the wages to the employee. Where the employee works for the employer for one year or above without labour contract, the parties are deemed to have entered into a non-fixed term labour contract; (ii) an employee who meet certain criteria, including but not limited to having worked for the same employer for 10 years or above, may require to enter into a non-fixed term labour contract with the employer; (iii) the employee must comply with the relevant trade secrets or non-competition provisions; (iv) the scope of circumstances in which the employer must make legitimate compensation to the employee has been expanded; (v) a maximum limit of amount that the employee can seek compensation from the employer for breach of contract has been set; (vi) the employee can terminate the labour contract if the employer fails to contribute to the social insurance fund for the employee according to law; (vii)

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an employer who receives “deposit” from the employee as security will be fined up to RMB2,000; and (viii) an employer who deliberately deprives the employee of any part of his salary must make full payment of the salary to the employee, together with a compensation amounting to 50% to 100% of the deprived amount of the salary.

### **Social insurance**

Pursuant to the PRC Social Insurance Law 《中華人民共和國社會保險法》, promulgated by the SCNPC on 28 October 2010 and becoming effective on 1 July 2011 and the Interim Regulations on the Collection and Payment of Social Security Funds 《社會保險費徵繳暫行條例》 promulgated by the State Council and effective from 22 January 1999, employers are required to contribute, on behalf of their employees, to a number of social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity leave insurance. Under the circumstance where an employer fails to pay social insurance funds in full amount, it might be subject to a rectification order by competent authorities and a daily late fee at the rate of 0.05% of the outstanding amount from the due date might be imposed. In addition, if it fails to make such payment in full amount within the prescribed time limit, a fine in the amount of one to three times of the outstanding payment might be imposed. Pursuant to the Regulation on Work-Related Injury Insurances 《工傷保險條例》 amended by the State Council on 20 December 2010, employers shall pay work-related injury insurance premiums for the employees on time and employees are not required to pay work-related injury insurance premiums themselves. Pursuant to the Interim Measures concerning the Maternity Insurance 《企業職工生育保險試行辦法》 promulgated by the Ministry of Labour of the PRC on 14 December 1994 and effective from 1 January 1995, employers are required to contribute, on behalf of their employees, to the maternity leave insurance. Under the circumstance where an employer fails to pay maternity leave insurance in full amount, it might be subject to a daily late fee at the rate of 0.2% of the outstanding amount from the due date might be imposed. Pursuant to the Regulations on Unemployment Insurance 《失業保險條例》 promulgated by the State Council and became effective on 22 January 1999, employers are required to contribute to the unemployment insurance at the rate of 2% of the gross payroll and employees are required to contribute to the unemployment insurance at the rate of 1% of his/her own payroll.

### **Housing provident fund**

Pursuant to the Regulations on the Administration of Housing Provident Fund 《住房公積金管理條例》 promulgated by the State Council and became effective on 3 April 1999 which was amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to the housing provident funds at a rate between 5% and 20% of the deposit base. Failure in the registration or the opening of accounts for employees might be subject to a rectification order by the competent housing fund management centre and a fine between RMB10,000 and RMB50,000. Failure in payment of the housing provident fund in time or any underpayment thereof shall be subject to a rectification order by the competent housing fund management centre.

Our PRC subsidiary, Beijing Chang-de, is located in Beijing and is subject to the Several Provisions of Beijing Municipality on Implementation of the Regulations on Management of Housing Provident Fund 《北京市實施《住房公積金管理條例》若干規定》 which promulgated on 6 January

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2006 and was effective from 1 March 2006, and Shanghai Deson Decoration, is located in Shanghai and is subject to the Provisions of Shanghai Municipality on the Administration of Housing Provident Fund 《上海市住房公積金管理若干規定》 which promulgated 26 September 2005 and was effective from 1 January 2006.

### **PROVISIONS ON TAXATION**

#### **Enterprise income tax**

Pursuant to the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法》 promulgated on 16 March 2007 and effective on 1 January 2008, and the Regulation on Implementation of the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法實施條例》 promulgated on 6 December 2007 and effective from 1 January 2008, the tax rate of enterprise income tax shall be 25%. A non-resident enterprise that does not have an establishment or place of business in the PRC, or has an establishment or place of business in the PRC but the income has no actual connection to its establishment or place of business, shall pay enterprise income tax on the incomes derived from inside the PRC at the reduced rate of . enterprise income tax of 20%.

#### **Business tax**

Pursuant to the Interim Regulation of the People’s Republic of China on Business Tax 《中華人民共和國營業稅暫行條例》 promulgated on 10 November 2008 and effective on 1 January 2009 and the Implementation Rules on the Interim Regulations on Business Tax of the PRC 《中華人民共和國營業稅暫行條例實施細則》 as amended on 28 October 2011 and effective from 1 January 2011, all entities and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The items and rates of business tax shall be implemented in accordance with the List of Items and Rates of Business Tax 《業稅稅目稅率表》 attached to the regulations. The tax rate of business tax on construction industry shall be 3%.

#### **Withholding income tax**

Pursuant to the Arrangements between the PRC and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and Prevention of Tax Evasion 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 promulgated on 21 August 2006, the applicable withholding income tax rate for any dividends declared by a Chinese company is 5% for a shareholder being Hong Kong resident holding at least 25% interest in its registered capital, or 10% for a shareholder being Hong Kong resident holding less than 25% interest in its registered capital.

#### **Tax benefits**

Pursuant to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) 《非居民享受稅收協定待遇管理辦法(試行)》 promulgated on 24 August 2009 and effective from 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws)

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## **REGULATORY OVERVIEW**

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that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax agreements.

### **PROVISIONS ON FOREIGN EXCHANGE MANAGEMENT AND DIVIDEND**

#### **DISTRIBUTION**

Pursuant to the Foreign Exchange Administration Regulations 《中華人民共和國外匯管理條例》 promulgated by the State Council on 29 January 1996 and effective on 1 April 1996 (and updated on 5 August 2008), the RMB is freely convertible to pay for current accounts, including that of the trade and service related foreign exchange transactions and dividend payments, but does not include expenditure on capital accounts which includes that of the direct investments, loans or securities investments outside the PRC. The RMB is freely convertible for expenditure on capital accounts only if prior approval from SAFE is obtained.

According to the Foreign Exchange Management Regulations, a foreign invested enterprise in the PRC can purchase foreign currencies for trade and service related foreign exchange transactions without approval from SAFE, but it must submit the commercial documentations in relation to such transactions for verification. A company may reserve foreign currencies (subject to the maximum limit as approved by SAFE) for repayment of debts in foreign currencies or for payment of dividends. However, the relevant PRC government which has significant discretion in the implementation of regulations may limit or abolish the ability of foreign invested enterprises to purchase or reserve foreign currencies in the future. In addition, foreign exchange transactions involving direct investments, loans or securities investments outside the PRC are subject to the limitations of the SAFE and approval from which must be obtained.

On 29 August 2008, SAFE issued the Circular on Relevant Operating Issues concerning the Improvement of Administration of Payment and Settlement of Foreign Currency Capitals of Foreign-invested Enterprises, or “Circular No. 142” 《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》. According to Circular No. 142, RMB obtained from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope approved by the PRC governmental authorities and cannot be used for domestic equity investment, unless otherwise permitted by PRC laws or regulations. When an enterprise intends to repay a loan in RMB with the RMB obtained from the settlement of its foreign currency capital, it must submit as a statement that the loan has been used in accordance with a contract and within the business scope approved by the regulatory authorities.

On 19 November 2012, SAFE issued Circular of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment 《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》 (the “Circular 59”) effective from 17 December 2012 which provides more specific requirements on the registration relating to foreign exchange administration. Under the Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realisation account, guarantee account) no longer requires the approval from SAFE.

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Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation and early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE’s approval.

### **APPROVAL FOR THE LISTING**

Save for the approval from the Stock Exchange, no other regulatory approval is required for the Listing. For shareholder’s approval, please refer to the section headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our then sole Shareholder passed on [●] 2014” in Appendix IV to this document.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### HISTORY AND BUSINESS DEVELOPMENT

We have over 20 years of experience in the building industry in the PRC and Hong Kong. The history of our Group can be traced back to 1988 when our wholly-owned subsidiary, Deson Development, was incorporated by Mr. Tjia, the controlling shareholder of DDIHL, our Controlling Shareholder, together with two Independent Third Parties, through their personal resources, who each contributed approximately HK\$0.3 million. Before the Spin-off, our operating subsidiaries were an integral material part of the DDIHL Group. The shares of DDIHL was listed on the Main Board since June 1997.

We were first approved as a registered building contractor with the Hong Kong Buildings Department to carry out building works in Hong Kong in 1989. However, benefitting from Mr. Tjia’s experience and connections in the construction industry in the PRC, we focused our business in the PRC in particular Beijing and Shanghai in the early years of our commencement of business. Our Directors believe that we were among the first batch of the foreign contractors operating in the PRC to have successfully obtained in September 1994, a Qualification Permit, following implementation of the Provisional Measures for the Control of Quality of Foreign Enterprises Contracting for Construction Works in the PRC\* (在中國境內承包工程的外國企業資質管理暫行辦法) governing the qualification of foreign contractors operating in the PRC.

The first few major projects undertaken by us in the PRC were the interior decoration and electrical and mechanical works in the construction of a development called the Oriental Arts Building and Hotel located in the city centre of Beijing (one of the buildings in the development is known as the Beijing Hilton Hotel) in Beijing and the Shartex Plaza in Shanghai. Our outstanding quality of the construction work for the Shartex Plaza project received the highest recognitions for building and construction work in Shanghai and the PRC, respectively, when we were awarded the Bai Yu Lan Prize (白玉蘭獎) in February 1993 by the Shanghai Construction Industry Association\* (上海市建築業聯合會) and Shanghai Construction Quality Supervision Centre\* (上海建設工程質量監督站) and the Lu Ban Prize\* (魯班獎) in December 1994 by China Construction Industry Association\* (中國建築業聯合會). Other landmark buildings which we were involved as a contractor in the PRC includes the German Centre, Shanghai Square and Lippo Plaza in Shanghai, Phase I of Parkview Place Garden in Guangzhou and Legend Garden Villas in Beijing.

To enhance our competitiveness in carrying out construction and fitting-out works in the PRC mainly in hotel projects in the early 1990s and to strengthen our ability to arrange for local manpower supply required for our projects, on 19 March 1990, we set up Beijing Chang-de, an equity joint venture company together with a PRC state-owned enterprise, Beijing Construction Engineering Corporation\* (北京市建築工程總公司)(“**Beijing Construction**”), an Independent Third Party. On 27 April 1993, Shanghai Deson was set up. As at the Latest Practicable Date, Beijing Chang-de held, among others, “Grade I Professional Contractor of Construction and Renovation Works\* (建築裝修裝飾工程專業承包壹級)” and “Grade A Professional Interior Design\* (建築裝飾工程設計專項甲級)” while Shanghai Deson held “Grade II Professional Construction, Renovation and Fitting-out Contractor Certificate\* (建築裝修裝飾工程專業承包貳級)”.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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In Hong Kong, we were first involved in the HK Government construction projects since late 1990s when we were approved on the List of Approved Supplier of Materials and Specialist Contractors for Public Works — Turn-key Interior Design and Fitting-out Works Category (Group I) with the WBDB. In March 2001, Deson Development was first approved on the List of Approved Contractor for Public Works — Building category (Group C) (on probation) with WBDB. In the early 2000s, we began focus more of our construction and fitting-out business in Hong Kong (instead of the PRC) and widened the scope of our services to foundation works when we were approved as a Registered Specialist Contractor for foundation works category by the Buildings Department in April 2000.

In August 2000, we further expanded our business to cover the electrical and mechanical engineering works after acquiring Kenworth Engineering (through the acquisition of its holding company, KEL Holdings Limited, a company then listed on the Main Board of the Stock Exchange which was in financial difficulty) pursuant to a restructuring agreement. We were approved on the List of Approved Supplier of Materials and Specialist Contractors for Public Works in Hong Kong for “Air-conditioning Installation (Group II)”, “Electrical Installation (Group III)” and “Fire Services Installation (Group II)” categories with the WBDB. In 2001, we established Deson Engineering in Hong Kong to contract fitting-out construction projects in Hong Kong market. In March 2011, we further expanded our scope of services to include minor works when Deson Engineering approved as a Registered Minor Works Contractor for Class I, Class II and Class III with the Buildings Department. Over the years, we acted as contractor for large-scale interior fitting-out projects for clients in the private sector, which includes internationally renowned stores, luxury residence, shopping malls and banks.

Our Directors believe that we are able to provide one-stop comprehensive services covering from building construction works, electrical and mechanical engineering works to fitting-out works for a construction project in Hong Kong in both private and public sectors. Among other recent notable projects which we were involved in Hong Kong included the construction of luxury houses at 10 Pollock’s Path of the Peak, construction of the sewage treatment plant in Ngong Ping, New Territory, redevelopment of part of a theme park and various educational establishments.

We further expanded our business to Macau in 2013. Through our subsidiary, Deson Macau, we were also engaged in non-residential fitting-out works in Macau on ad-hoc basis, where the works were carried out through sub-contractors.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BUSINESS DEVELOPMENT MILESTONES

The following events are the key business milestones of our Group since its establishment:

Year	Event
1989	Deson Development obtained the Certificate of Registration of Registered Contractor from the Buildings Department.
1992	Deson Development was approved on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works — Turn-key Interior Design and Fitting-out Works Category (Group I) with the WBDB.
July 1993	Shanghai Deson first obtained Grade II Professional Construction, Renovation and Fitting-out Contractor Certificate (Probation)* (建築裝修裝飾工程專業承包(暫定)貳級) from the Shanghai Urban Construction and Communications Commission* (上海市城鄉建設和管理委員會).
September 1994	Deson Development obtained a Qualification Permit following implementation of the Provisional Measures for the Control of Quality of Foreign Enterprises Contracting for Construction Works in the PRC* (在中國境內承包工程的外國企業資質管理暫行辦法). Due to changes in the PRC governmental policies in late 2002, we currently no longer maintain such a qualification permit.
August 1997	Deson Development was first accredited with ISO9002:1994 certification by HKQAA, which was applicable to building construction and fitting out works including building services installation. Currently, accredited with ISO9001:2008 certification by HKQAA
October 1998	Beijing Chang-de obtained Grade I licence as professional contractor of construction and renovation works* (建築裝修裝飾工程專業承包壹級) from Ministry of Housing and Urban-Rural Development of the PRC* (中華人民共和國住房和城鄉建設部).
September 1999	Deson Development was approved by Buildings Department as Registered General Building Contractor.
April 2000	Deson Development was approved as a Registered Specialist Contractor (Foundation Works Category) by Buildings Department.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Year	Event
August 2000	DDIHL successfully acquired KEL Holdings Ltd (previously listed on Main Board, stock code: 00681) and indirectly its subsidiaries including Kenworth Engineering pursuant to a restructuring agreement. Kenworth Engineering is principally engaged in the design, supply, installation and maintenance of electrical and engineering contracting services in the building industry in Hong Kong.
January 2001	Kenworth Engineering was approved as a Registered Specialist Contractor (Ventilation Works Category) with the Buildings Department.
March 2001	Deson Development was approved on the List of Approved Contractor for Public Works — Buildings category (Group C) (on probation) with the WBDB.
May 2004	Deson Development was approved on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works — Turn-key Interior Design and Fitting-out Works Category (Group II) with the WBDB.
April 2006	Deson Development was approved on the List of Approved Contractors for Public Works — Buildings Category (Group C) (confirmed).
August 2010	Deson Development was approved as a Registered Contractor for Fitting-Out/Renovation Works and Repair/Maintenance Works with the Urban Renewal Authority.
March 2011	Deson Engineering was approved as a Registered Minor Works Contractor (Company) — Class I, II and III with the Buildings Department.
November 2011	Kenworth Engineering was approved as a Registered Minor Works Contractor (Company) (Type E Works relating to Structures for Amenities) — Class III with the Buildings Department.
May 2014	Deson Development became an approved vendor of The Link Management Limited in Hong Kong.
July 2014	Through an injection in paid-up capital in Shanghai Deson, Shanghai Deson was promoted to “Grade II Professional Construction, Renovation and Fitting-out Contractor*” and started the electrical and mechanical works.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### CORPORATE DEVELOPMENT

We summarised below corporate development of our major operating subsidiaries for each of our business segments:

<u>Name of subsidiary</u>	<u>Date and place of incorporation</u>	<u>Details of acquisition/establishment</u>
<b>Building construction and fitting-out works</b>		
Deson Development	1 March 1988, Hong Kong	<p>Established by Mr. Tjia and two other Independent Third Parties. On 21 May 1997, prior to the listing of DDIHL on the Main Board, Deson Development Holdings subscribed 100 shares in Deson Development (which were subsequently converted to voting shares) at the cash consideration of HK\$100 (including one share held on trust for Deson Development Holdings) at the then par value of the shares, which such subscription was legally completed and settled.</p> <p>On 2 September 2003, 20,000,000 voting shares were further allotted and issued to Deson Development Holdings at the cash consideration of HK\$20 million.</p> <p>All 20,000,100 voting shares in Deson Development were subsequently transferred to our Group at the cash consideration of HK\$40,000,100 pursuant to the Reorganisation on [●] 2014.</p>
<b>Electrical and mechanical engineering works</b>		
Kenworth Engineering	30 June 1922, Hong Kong	<p>Our Group acquired KEL Holdings Limited (and indirectly its wholly-owned subsidiaries, among others, Kenworth Group and Kenworth Engineering) at the cash consideration of HK\$40 million pursuant to a restructuring agreement on 30 April 2000, which was legally completed and settled in August 2000.</p>
<b>Fitting-out works and minor works</b>		
Beijing Chang-de	19 March 1990, the PRC	<p>Established by Deson Development together with a PRC state-owned enterprise, Beijing Construction as a joint venture, in which Deson Development owned 40% minority interest. Save for its interest in Beijing Chang-de, Beijing Construction is an Independent Third Party.</p>

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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<u>Name of subsidiary</u>	<u>Date and place of incorporation</u>	<u>Details of acquisition/establishment</u>
		<p>On 10 September 1993, pursuant to internal group transfers, Beijing Construction transferred its 60% interest in Beijing Chang-de to 北京市建築工程裝飾公司 (Beijing Construction Engineering and Decoration Corporation*) at no consideration and Deson Development transferred its 40% interest in Beijing Chang-de to its wholly-owned subsidiary, Deson Construction Engineering Limited, at no consideration. Such transfers of equity interests in Beijing Chang-de were legally completed.</p>
		<p>On 22 October 1996, pursuant to an internal group transfer, 北京市建築工程裝飾公司 (Beijing Construction Engineering and Decoration Corporation*) transferred its 60% interest in Beijing Chang-de to 北京建工集團有限責任公司 (更名前的北京建工集團總公司) (Beijing Construction Engineering Group Corporation*, formerly known as Beijing Construction Engineering Group Main Corporation*) (“BCEG”) at no consideration. Such transfer of equity interest in Beijing Chang-de was legally completed.</p>
		<p>On 5 June 1997, Deson Development through its wholly-owned subsidiary further increased its equity participation in Beijing Chang-de to 60% by contributing an aggregate amount of approximately RMB9.2 million (including the capital contribution for the initial 40% interest) to the paid-up capital of Beijing Chang-de, which increase in paid-up capital was legally completed and settled.</p>
		<p>On 16 March 1998, Deson Development through its wholly-owned subsidiary further acquired 10% equity interest in Beijing Chang-de from BCEG for the cash consideration of US\$195,000, which acquisition was legally completed and settled.</p>
		<p>Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.</p>

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Name of subsidiary	Date and place of incorporation	Details of acquisition/establishment
		<p>In December 2005, Beijing Chang-de established Beijing Chang-de Architectural &amp; Decoration Company Limited Hainan Branch* (北京長迪建築裝飾工程有限公司海南分公司), a branch office in Hainan (“<b>Hainan Change-de Branch Office</b>”). Hainan Change-de Branch Office had not commenced operations since its establishment and it did not participate in an annual inspection after 2007 in the prescribed time. Consequently, the relevant governmental authority revoked its business licence. On 1 September 2014, an application was made for dissolving the Hainan Change-de Branch Office with the relevant governmental authority and as at the Latest Practicable Date, it is still in the process of being dissolved (“<b>Revocation and Dissolution</b>”). Hainan Change-de Branch Office is insignificant to our operations as it did not contribute any revenue during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, we are not aware of any claim being made against us or any of our Directors as a result of the Revocation and Dissolution.</p> <p>On 1 February 2010, Beijing Chang-de established Beijing Chang-de Architectural &amp; Decoration Company Limited Chengdu Branch* (北京長迪建築裝飾工程有限公司成都分公司), a branch office in Chengdu (“<b>Chengdu Change-de Branch Office</b>”) with an operation term of 10 years expiring on 18 March 2020.</p>

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name of subsidiary	Date and place of incorporation	Details of acquisition/establishment
Shanghai Deson	27 April 1993, PRC	<p>Established by our Group with an Independent Third Party in which we then held 51% interest in Shanghai Deson.</p> <p>On 30 December 1995, Shanghai Deson increased its registered capital to US\$700,000 and our Group contributed an additional sum of US\$204,000 in proportion to our equity interest in Shanghai Deson.</p> <p>On 30 September 1999, our Group acquired a further 44% equity interest in Shanghai Deson from the Independent Third Party at the cash consideration of approximately US\$308,000, which such acquisition was legally completed and settled.</p> <p>On 18 February 2013, our Group acquired the remaining 5% interest in Shanghai Deson from an Independent Third Party at the cash consideration of US\$40,000, which such acquisition was legally completed and settled.</p>
Deson Engineering	15 August 2001, Hong Kong	Deson Engineering was established as a wholly-owned subsidiary of our Group.
Deson Macau	24 August 2005, Macau	Deson Macau was established as a wholly-owned subsidiary of our Group.

### PRE-LISTING STRATEGIC INVESTMENT

On 1 August 2014, Latest Ventures entered into a subscription agreement with Huge Energy Holdings Limited (“HEHL”), an Independent Third Party, pursuant to which Latest Ventures agreed to issue and allot to HEHL and HEHL agreed to subscribe 99 fully-paid shares of Latest Ventures representing approximately 9.9% of the issued share capital of Latest Ventures, a total cash consideration of HK\$12,450,000, determined with reference to (i) the unaudited combined profits of our Group for the year ended 31 March 2014; (ii) the major construction licenses held by our Group; and (iii) the future prospect of the construction industry in Hong Kong. Immediately after the completion of the Reorganisation as described in the paragraph headed “Overview of the Reorganisation” in this section, our Company will be owned as to 9.9% by HEHL and 90.1% by DDIHL through Deson Development Holdings, respectively.

### Background of the investor

HEHL is a private limited company incorporated in the British Virgin Islands and is an investment holding company. It is wholly-owned by Capital VC Limited (Main Board, stock code: 02324), an investment company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange. Capital VC Limited’s primary investment objective is to achieve

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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earnings in the form of short to medium term (i.e., less than five years) capital appreciation as well as income from interest and dividends by investing in listed and unlisted companies mainly in Hong Kong and the PRC. To the best knowledge, information and belief of our Directors, other than its investment in our Group, HEHL and its ultimate shareholder, Capital VC Limited, are Independent Third Parties.

### **Further details of the investment**

Set out below is a summary of the details of the pre-Listing investment mentioned above:

Name of investor:	Huge Energy Holdings Limited
Date of subscription agreement:	1 August 2014
Number of shares:	99 shares of US\$1.00 each in the issued share capital of Latest Ventures.
Consideration:	HK\$12,450,000
Basis of determination of consideration:	With reference to (i) the unaudited combined profits of our Group for the year ended 31 March 2014; (ii) the major construction licenses held by our Group; and (iii) the future prospect of the construction industry in Hong Kong.
Consideration payment date:	1 August 2014
Investment cost per share:	Approximately HK\$125,757.58 per share of US\$1.00 each in the share capital of Latest Ventures, which is translated into approximately HK\$0.36 per Share, as HEHL will be entitled to [REDACTED] Shares (or [REDACTED]% interest of our Company) upon Listing.
Use of proceeds:	Applied towards the Reorganisation and listing expenses of our Company. As at the Latest Practicable Date, the proceeds have been fully utilised.
Strategic benefits to our Company:	Contribution of Reorganisation and listing expenses of our Company.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Shareholding in our Company immediately upon Listing:	[REDACTED]%.  
Special rights:	HEHL is not entitled to any special rights in our Company.
Lock-up:	HEHL irrevocably and unconditionally undertook to Latest Ventures, if requested by the Stock Exchange or the Sponsor, he shall not sell the shares in Latest Ventures or the Shares in our Company for such period after the Listing as required by the Stock Exchange or the Sponsor.
Restrictions on transfer and right of first refusal:	<p>HEHL further irrevocably and unconditionally undertook to Latest Ventures that, amongst others, at any time prior to the Listing, unless otherwise agreed in writing by Deson Development Holdings, HEHL shall not transfer the shares in Latest Ventures or the Shares in our Company (or any interest in such shares) to any third party unless the first right of refusal is given to Deson Development Holdings, a direct wholly-owned subsidiary of DDIHL.</p> <p>If HEHL wishes to transfer any or all of the shares in Latest Ventures (or the Shares in our Company) held by it to a third party who is not a shareholder of Latest Ventures or our Company (the “<b>Transferee</b>”), it must send a written notice (the “<b>Transfer Notice</b>”) to Deson Development Holdings, which notice shall include, among others: (i) full name and address of the Transferee; (ii) the number of the shares in Latest Ventures or the Shares in our Company to be transferred (the “<b>Offer Shares</b>”); (iii) the amount of the proposed consideration for the Offer Shares (the “<b>Offer Price</b>”); (iv) a copy of any agreement or documentation between HEHL and the Transferee relating to the Offer Shares; and (v) the proposed effective date of the proposed sale.</p> <p>For a period of 28 days after the delivery of a Transfer Notice (the “<b>Offer Period</b>”), Deson Development Holdings shall have the right (but not the obligation) exercisable by Deson Development Holdings through the delivery of an acceptance notice, to purchase in aggregate all (and not part only) of the Offer Shares at the Offer Price (the “<b>Acceptance Notice</b>”). An Acceptance Notice shall be irrevocable and shall constitute a binding agreement by Deson Development Holdings to purchase the Offer Shares at the Offer Price. Such sale and purchase of the Offer Shares shall be completed within 28 days of the Acceptance Notice.</p>

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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If Deson Development Holdings does not deliver the Acceptance Notice within the Offer Period, HEHL may transfer all of the Offer Shares to the Transferee at the Offer Price provided that: (i) such sale is a bona fide sale; (ii) the price for the sale to the Transferee is at a price not less than the Offer Price and the sale is otherwise on terms and conditions no less favourable to Deson Development Holdings than those set forth in the Transfer Notice; and (iii) the transfer is made within 60 days after the expiry of the Offer Period.

If such a transfer does not occur within the 60 days period after the expiry of the Offer Period for any reason or if it is proposed to change the terms of the proposed transfer from those set out in the Transfer Notice, the restrictions provided for above shall again become effective, and no transfer of the Offer Shares may be made by HEHL without again complying with the above paragraphs.

Public float:

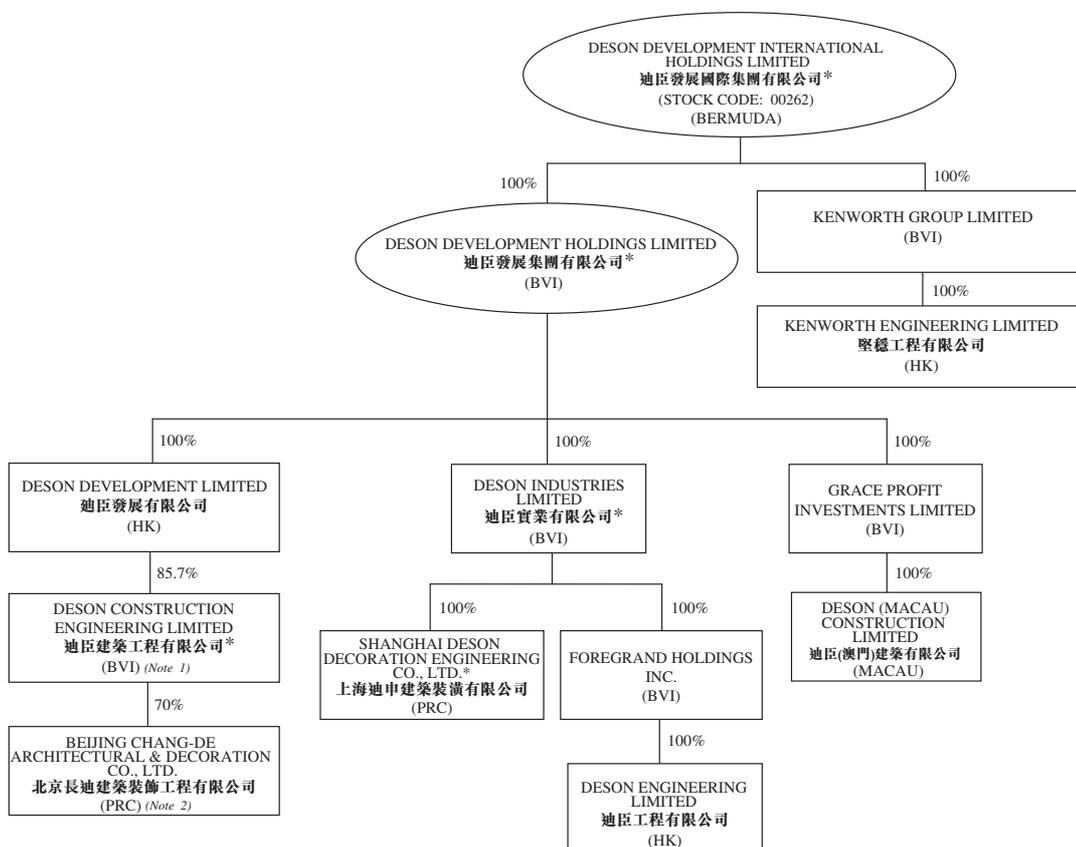
The Shares held by HEHL are considered as part of the public float as HEHL (i) is not a connected person of our Company; (ii) the acquisition of his interest in the Shares was not financed directly or indirectly by any connected person of our Company; and (iii) is not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of securities of our Company registered in his name or otherwise held by it.

On the above basis, the Sponsor is not aware of any terms of the pre-Listing investment which are not in compliance with Guidance Letter HKEx-GL43-12 and it is of the view that the pre-Listing investment is in compliance with the “Interim Guidance on Pre-IPO Investments” issued by the Listing Committee since the consideration under the pre-Listing investment was settled on 1 August 2014, which was more than 28 clear days before the date of the first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### GROUP STRUCTURE PRIOR TO REORGANISATION

The corporate structure chart below illustrates the corporate and shareholding structure of our Group as at 31 March 2014, immediately prior to the Reorganisation:



Notes:

-  Remaining DDIHL Group  
 Our Group

- The other shareholder of Deson Construction Engineering as at 31 March 2014 was Sudbury Profits Limited. Save for its interest in Deson Construction Engineering, Sudbury Profits Limited is an Independent Third Party.
- The other capital contributor of Beijing Chang-de as at 31 March 2014 was BCEG. Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### OVERVIEW OF THE REORGANISATION

In preparation for the Spin-off and the Listing, DDIHL implemented the Reorganisation to establish our Company and the ownership structure of our Group. The Reorganisation was implemented in the manner described below.

**Stage 1:** Transfer of entities that are not engaged in the Construction and Engineering Contracting Business or are dormant out of our Group to the Remaining DDIHL Group. Stage 1 of the Reorganisation comprises the following steps:

- (1) On [●], Deson Industries transferred to Deson Development Holdings one share in Yan Man Developments Limited and indirectly, its subsidiaries, Rapid Advice Limited and Deson Enterprise Holdings Limited. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Industries by Deson Development Holdings.
- (2) On [●], Deson Development transferred to Yan Man Developments Limited one share in Deson Building Construction Limited and indirectly, its associated companies. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development by Yan Man Developments Limited.
- (3) On [●], Deson Development transferred to Yan Man Developments Limited one share in Deson Technology Holdings Limited and indirectly, its subsidiaries. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development by Yan Man Developments Limited.
- (4) On [●], Kenworth Group transferred to Yan Man Developments Limited one share in New Perfect Limited and indirectly, its subsidiary, Treasure Field Investment Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited.
- (5) On [●], Kenworth Group transferred to Yan Man Developments Limited one share in Gosford Technology Limited and indirectly, its subsidiary, Synergy Asia Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited.
- (6) On [●], Kenworth Group transferred to Yan Man Developments Limited one share in Intellimission Limited and indirectly, its subsidiary, Kingsly Corporation Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- (7) On [●], Kenworth Group transferred to Yan Man Developments Limited one share in Heraldic Fortune Limited and indirectly, its subsidiary, KEL Employment Services Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited.
- (8) On [●], Deson Industries transferred to Yan Man Developments Limited two shares in Deson Building Materials Limited and indirectly, its associated company, Deson Metals Company Limited. The agreed consideration for this transfer of HK\$77,100, was settled on the basis of a debt of an amount of HK\$77,100 being left outstanding and owing to Deson Industries by Yan Man Developments Limited.
- (9) On [●], Deson Industries transferred to Yan Man Developments Limited one share in Advancost Assets Limited and indirectly, its subsidiary, Many Light Development Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Deson Industries by Yan Man Developments Limited.
- (10) On [●], Deson Industries transferred to Deson Development Holdings 50,000 shares in Top Brand International Limited and indirectly, its subsidiaries, Building Asia Granite & Marbel Limited and 建亞(福州)石材有限公司(Building Asia (Fuzhou) Granite & Marble Co., Ltd.\*). The agreed consideration for this transfer of HK\$343,560 was settled on the basis of a debt of an amount of HK\$343,560 being left outstanding and owing to Deson Industries by Deson Development Holdings.
- (11) On [●], Deson Development transferred all its legal and beneficial title in eight office units at Level 11 of Nanyang Plaza, Kwun Tong, Hong Kong to Grand On Enterprise Limited, a member of the Remaining DDIHL Group. The consideration for this transfer of approximately HK\$126.6 million, being an amount equal to the book value of these properties, was settled on the basis of a debt of an amount of approximately HK\$126.6 million being left outstanding and owing to Deson Development by Grand On Enterprise Limited.
- (12) On [●], Deson Development declared and paid a dividend of approximately HK\$200 million to Deson Development Holdings, to be settled on the basis of a debt of an amount of approximately HK\$200 million being left outstanding and owing to Deson Development Holdings by Deson Development.

**Stage 2:** Transfer of the following entities to our Group such that only our Group will hold the Construction and Engineering Contracting Business. Stage 2 of the Reorganisation comprises the following steps:

- (1) The following companies were incorporated as holding companies of our Group:
  - (a) our Company was incorporated in the Cayman Islands on 18 July 2014 and became a wholly-owned subsidiary of Deson Development Holdings on the same date;

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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- (b) Latest Ventures was incorporated in the BVI on 18 June 2014 to act as the new intermediate holding company of our Group. On 8 July 2014, one ordinary share of par value US\$1.00 in Latest Ventures was issued and allotted to Deson Development Holdings; and
  - (c) Colton Ventures was incorporated in the BVI on 19 June 2014 as a wholly-owned subsidiary of Latest Ventures to act as the new immediate holding company of Deson Development and its subsidiaries. On 8 July 2014, one share of HK\$1.00 in Colton Ventures was issued and allotted to Latest Ventures.
- (2) On 29 July 2014, Latest Ventures issued and allotted 900 ordinary shares of par value US\$1.00 each in Latest Ventures to Deson Development Holdings in consideration of US\$900 paid by Deson Development Holdings. On 1 August 2014, Latest Ventures issued and allotted 99 ordinary shares of par value US\$1.00 each in Latest Ventures to HEHL in consideration of HK\$12,450,000 pursuant to the Subscription Agreement dated 1 August 2014 entered into between Latest Ventures and HEHL. Upon completion of the Subscription Agreement, Latest Ventures is owned as to 90.1% by Deson Development Holdings and 9.9% by HEHL.
  - (3) On 19 August 2014, Mr. Tjia transferred 1,000 shares representing 3.33% interest in Deson Macau, which he held on trust for Grace Profit, to Colton Ventures at the cash consideration of MOP 1,000. On [●], Deson Development Holdings transferred to Latest Ventures one share in Grace Profit and indirectly its subsidiary, Deson Macau. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development Holdings by Latest Ventures.
  - (4) On [●], DDIHL transferred to Latest Ventures three shares in Kenworth Group and indirectly its wholly-owned subsidiary, Kenworth Engineering. The agreed consideration for this transfer of HK\$1 was settled on the basis of a debt of an amount of HK\$1 being left outstanding and owing to DDIHL by Latest Ventures.
  - (5) On [●], Deson Development Holdings and HEHL transferred to our Company 1,000 ordinary shares in Latest Ventures and indirectly its wholly-owned subsidiaries (being Colton Ventures, Grace Profit and Kenworth Group). The agreed consideration for this transfer of HK\$17,499,999.90 was settled on the basis of a debt of an amount of HK\$17,499,999.90 being left outstanding and owing to Deson Development Holdings and HEHL by our Company.
  - (6) On [●], Deson Development Holdings transferred to Latest Ventures one ordinary share in Deson Industries and indirectly its subsidiaries (being Shanghai Deson, Foreground Holdings Inc. and Deson Engineering). The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Deson Development Holdings by Latest Ventures.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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- (7) On [●], Deson Development Holdings transferred to Colton Ventures 20,000,100 Class A voting shares in Deson Development (including 1 Class A voting share held on trust by Mr. Tjia for Deson Development Holdings was transferred to Latest Ventures and held on trust for Colton Ventures) and indirectly its subsidiaries (being Deson Construction Engineering and Beijing Chang-de). The consideration for this transfer of HK\$40,000,100, being an amount equal to the investment cost of Deson Development, was settled on the basis of a debt of an amount of HK\$40,000,100 being left outstanding and owing to Deson Development Holdings by Colton Ventures.
- (8) As between our Group and the Remaining DDIHL Group, all the inter-company balances (including but not limited to the balances arising out of the Reorganisation steps above) will be transferred, assigned and set-off by way of assignment and novation such that a single net balance will be owed by Deson Development Holdings to our Company.
- (9) Our Company will issue 315,349,998 new Shares of par value HK\$0.05 each to Deson Development Holdings to capitalise the amount of HK\$15,767,499.90 due to Deson Development Holdings for transferring the shares in Latest Ventures.
- (10) Our Company will issue 34,650,000 new Shares of par value HK\$0.05 each to HEHL to capitalise the amount of HK\$1,732,500 due to HEHL for transferring the shares in Latest Ventures.
- (11) Certain members of our Group (including Deson Development) will declare and pay dividends to Latest Ventures in order for Latest Ventures to declare dividend and pay dividend to our Company.
- (12) Immediately before Listing, our Company will declare a special cash dividend of HK\$40,000,000 to Deson Development Holdings, and Deson Development Holdings will use the amount received from the dividend to pay for and set off against part of the net amount due by Deson Development Holdings to our Company. HEHL will waive the receipt of such dividend pursuant to the terms of the Subscription Agreement dated 1 August 2014 which it agreed that it was not entitled to dividend arising from Reorganisation. All the remaining outstanding inter-company balance due from Deson Development Holdings to our Company in the aggregate amount of approximately HK\$18,161,000 will then be settled in cash.

Following completion of Stage 2 of the Reorganisation, our Company will hold only the Construction and Engineering Business. The remaining businesses of the Remaining DDIHL Group will continue to be held by DDIHL and/or its wholly-owned subsidiaries and will be held separately from (and outside of) our Group under DDHL.

**Stage 3: The Distribution:**

- (1) Deson Development Holdings will declare and pay a dividend by distributing and transferring [REDACTED] Shares of par value HK\$0.05 each of our Company (representing approximately [REDACTED]% of the issued share capital of our Company) to DDIHL.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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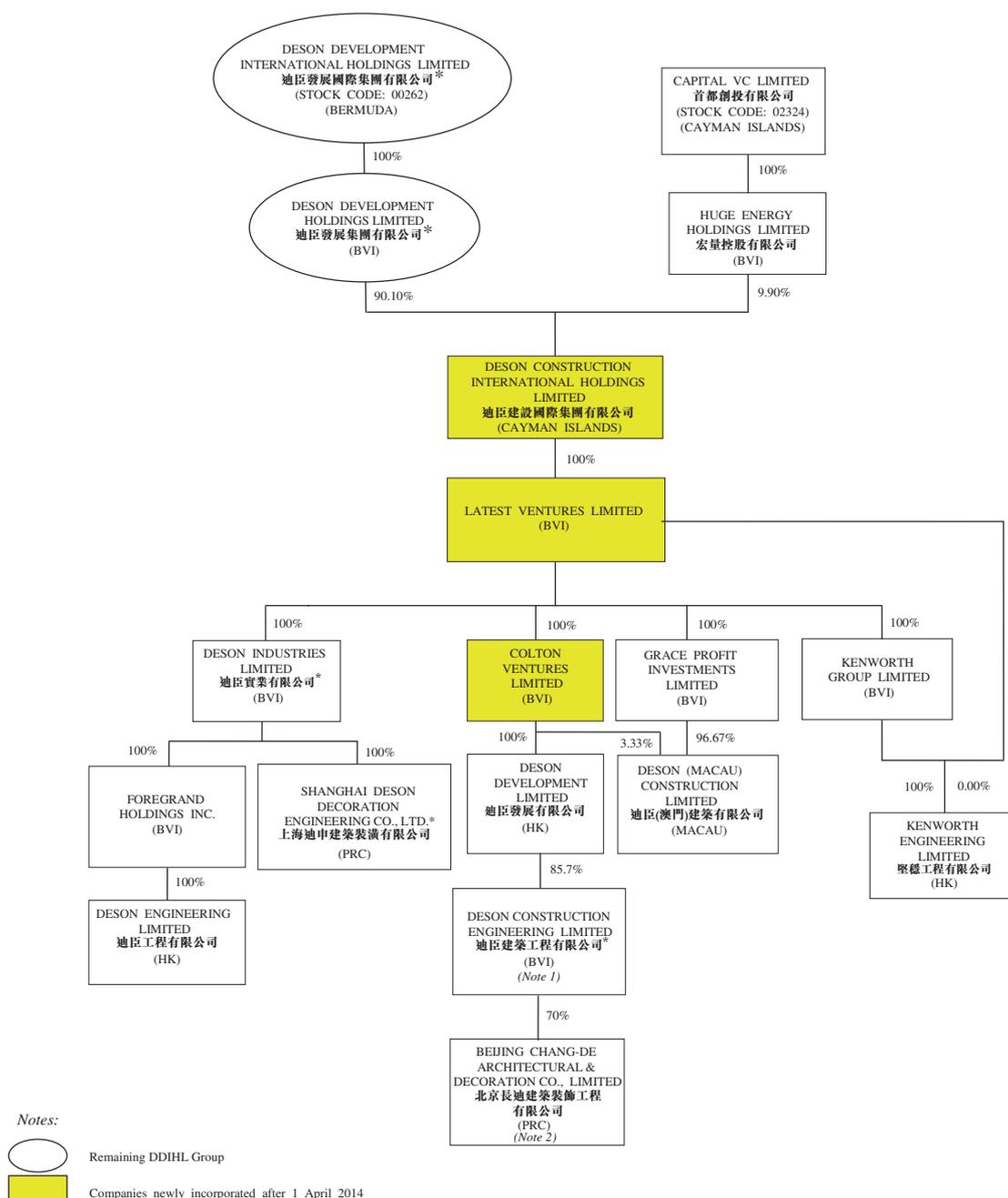
- (2) Shortly before the Listing, DDIHL will declare and pay an interim dividend by distributing and transferring [REDACTED] Shares of par value of HK\$0.05 each of our Company (representing approximately [REDACTED]% of the issued share capital of our Company) to all DDIHL Qualifying Shareholders on the Distribution Record Date by implementing the Distribution on the basis of [REDACTED] Share for every [REDACTED] DDIHL Shares so that upon completion of the Distribution, our Company is owned as to approximately [REDACTED]% by DDIHL through Deson Development Holdings, [REDACTED]% by Mr. Tjia (being his direct and indirect interest in our Company through Sparta Assets Limited) and [REDACTED]% by the [REDACTED] shareholders of DDIHL (including [REDACTED]% by HEHL).

Our Directors consider that the Reorganisation has been properly and legally completed and settled, and have confirmed that the Reorganisation complies with applicable laws and regulations.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### GROUP STRUCTURE FOLLOWING THE REORGANISATION AND PRIOR TO THE SPIN-OFF AND THE LISTING

The following chart shows our corporate and shareholding structure upon completion of the Reorganisation but immediately before completion of the Listing:

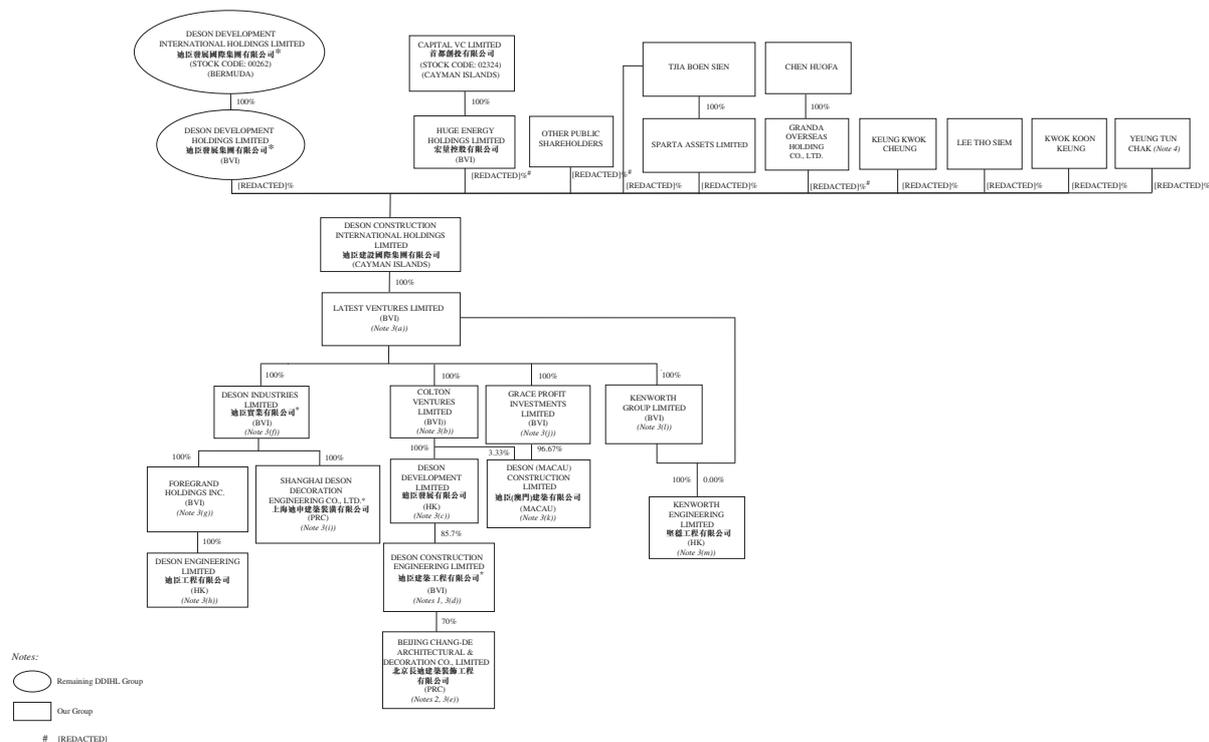


- The other shareholder of Deson Construction Engineering was Sudbury Profits Limited. Save for its interest in Deson Construction Engineering, Sudbury Profits Limited is an Independent Third Party.
- The other capital contributor of Beijing Chang-de was BCEG. Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### GROUP STRUCTURE FOLLOWING COMPLETION OF THE SPIN-OFF AND THE LISTING

The following chart shows our corporate and shareholding structure immediately following the completion of the Spin-off and the Listing:



1. The other shareholder of Deson Construction Engineering was Sudbury Profits Limited. Save for its interest in Deson Construction Engineering, Sudbury Profits Limited is an Independent Third Party.
2. The other capital contributor of Beijing Chang-de was BCEG. Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.
3. The following table summarises the brief details of each of our Group companies following the Spin-off and the Listing:

Name of Group companies	Date of incorporation/ Date of establishment	Place of incorporation/ Place of establishment	Principal activities	Percentage of effective equity interest attributable to our Company
(a) Latest Ventures	18 June 2014	BVI	Investment holding	100%
(b) Colton Ventures	19 June 2014	BVI	Investment holding	100%
(c) Deson Development	1 March 1988	Hong Kong	Construction contracting and investment holding	100%

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**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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	<b>Name of Group companies</b>	<b>Date of incorporation/ Date of establishment</b>	<b>Place of incorporation/ Place of establishment</b>	<b>Principal activities</b>	<b>Percentage of effective equity interest attributable to our Company</b>
(d)	Deson Construction Engineering	8 June 1993	BVI	Investment holding	85.7%
(e)	Beijing Chang-de	19 March 1990	PRC	Decoration engineering	60%
(f)	Deson Industries	14 June 1993	BVI	Investment holding	100%
(g)	Foregrand Holdings Inc.	18 February 1993	BVI	Investment holding	100%
(h)	Deson Engineering	15 August 2001	Hong Kong	Fitting out and minor work contracting	100%
(i)	Shanghai Deson	27 April 1993	PRC	Decoration engineering	100%
(j)	Grace Profit	10 March 1999	BVI	Investment holding	100%
(k)	Deson Macau	24 August 2005	Macau	Non-residential fitting-out works	100%
(l)	Kenworth Group	3 December 1996	BVI	Investment holding	100%
(m)	Kenworth Engineering	30 June 1922	Hong Kong	Provision of electrical and mechanical engineering services	100%

4. Yeung Tun Chak is a director of Deson Engineering, one of our subsidiaries.

## **BUSINESS**

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### **OVERVIEW**

We are principally engaged as a contractor in the building industry operating in Hong Kong and the PRC. In the highly competitive building industry, we are ranked ninth among contractors in Hong Kong providing building construction works, electrical and mechanical engineering works and fitting-out works in terms of revenue and have approximately 0.6% market share in terms of the total industry revenue for the 12 months ended 31 December 2013 according to the Industry Report. We serve our clients through our main office in Hong Kong and the PRC offices in Beijing and Shanghai. We may also provide limited ad-hoc services to our customers in other geographic markets from time to time where feasible. In 2013, we provided certain services in a project in Macau for our customer but revenue from Macau only represented approximately 2.7% of our total revenue for the year ended 31 March 2014.

As a contractor, we provide one-stop comprehensive services with the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering works; and (c) alterations, addition, renovation, refurbishment and fitting-out works. For details concerning our services, please refer to the paragraph headed “Our business and operations — Scope of services” of this section. For the year ended 31 March 2014, our total revenue was contributed as to approximately 28.5% by our building construction works, approximately 32.8% by our electrical and mechanical engineering works and approximately 38.7% by our fitting-out works. As projects in the building industry may require different expertise for the various works involved, we believe that the provision of comprehensive services is one of our competitive strengths and being a one-stop service provider makes us attractive to our customers.

We have extensive experience and established connections through our over 20 years in the building industry. Over the years, we have served as a contractor in a number of notable construction projects in Hong Kong including construction of luxury houses at 10 Pollock’s Path of the Peak, construction of a sewage treatment plant in Ngong Ping, New Territory, re-development of part of a theme park in Hong Kong Island and various educational establishments. During the Track Record Period, we mainly served customers from the private sector but we also have customers from the public sector in Hong Kong and some of them are our major customers including one department of the HK Government, which responsible for electrical and mechanical services and another department of the HK Government responsible for architectural services. For the year ended 31 March 2014, our total revenue was contributed as to approximately 83.5% by customers from the private sector and approximately 16.5% by our customers from the public sector.

For the year ended 31 March 2014, we completed 166 contracts with an aggregate contract sum of approximately HK\$593 million (without taking into account any revenue from variation orders). As at the Latest Practicable Date, we have 115 on-going contracts with an aggregate contract sum of approximately HK\$1,130 million of which approximately HK\$561 million has not yet been recognised as our revenue. For further details concerning our projects, please refer to the paragraph headed “Our business and operations — Contracts overview” of this section.

Depending on the cost effectiveness of using sub-contractors, our internal resources available, the relevant licensing or specialist requirements and level of complexity of the works, we may sub-contract our works to sub-contractors. For the year ended 31 March 2014, sub-contracting sums

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incurred by us amounted to approximately HK\$694.7 million representing approximately 89.3% of our total cost of sales over the same period. For further details concerning our sub-contracting arrangements, please refer to the paragraph headed “Suppliers and sub-contractors” of this section. To ensure our quality of service, we maintain a list of approved suppliers and sub-contractors to choose our sub-contractors from and as at the Latest Practicable Date there are over 400 sub-contractors on this list. Additionally, our sub-contractors and their employees are overseen by our project management team and governed by our quality management and workplace safety management system as detailed in the paragraphs headed “Workplace safety” and “Quality management system” of this section.

### **COMPETITIVE STRENGTHS**

We believe the following competitive strengths contribute to our continued success and potential for growth:

#### **Established operating history and track record in the building industry**

Since the establishment of our Group in 1988, we believe that our customers recognise us for our work quality and business efficiency. In our history, we received the highest recognitions for building and construction work in Shanghai, the PRC when we were awarded the Bai Yu Lan Prize\* (白玉蘭獎) in February 1993 by the Shanghai Construction Industry Association\* (上海市建築業聯合會) and Shanghai Construction Quality Supervision Centre (上海建設工程質量監督站) and the Lu Ban Prize\* (魯班獎) in December 1994 by China Construction Industry Association\* (中國建築業聯合會) for the quality of our construction work for the Shartex Plaza project. Though our customers are generally from the private sector, we also serve customers from the public sector in Hong Kong due to our numerous qualifications, which includes as at the Latest Practicable:

- Deson Development being one of 40 companies on the List of Approved Contractors for Public Works - Building Category (Group C) (Confirmed) with the WBDB;
- Deson Development being one of four companies on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works in the category of Turn-key Interior Design and Fitting-out Works (Group II) with the WBDB; and
- Kenworth Engineering is on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works in various different categories including but not limited to air-conditioning installation (Group II), fire services installation (Group II), Electrical Installation (Group III) with WBDB.

During the Track Record Period, our major customers include two departments of the HK Government and the approximately length of business relationship based on our first engagement was approximately nine years and approximately 15 years. For further details, please refer to the paragraph headed “Major licenses, permits and qualifications” of this section. Our Directors believe that given our experience and expertise and strong track record of over 20 years of completing projects with quality work and in a cost effect manner will continue to help us attract our customers and provide us with future opportunities.

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### **Leadership under a stable and experienced management team**

We are led by an experienced and stable management team. All of our executive Directors have been with us for over 14 years and have extensive experience working in the building industry in Hong Kong and the PRC, while most of our senior management have been with us for over 17 years and have extensive experience working in the building industry in Hong Kong and the PRC.

Owing to this experience, our Directors and senior management possess substantial experience, industry insight and project management experiences to facilitate the creation of competitive tenders in a timely manner. This has allowed us to secure numerous tenders over the years as well as provide us with accurate cost estimations during the tendering process and thereby reduce situations of cost overrun. Being familiar with the regulatory framework in Hong Kong and the PRC, our Directors and senior management also help to guide the performance of our projects and set out the principles to ensure compliance with the requirements set out in the relevant law and regulations. For the experience and qualifications of our Directors and senior management, please refer to the section headed “Directors, senior management and staff” of this document.

### **One-stop comprehensive building construction contracting services**

In addition to our extensive experience in the building industry, our expertise in different types of works required for a project and possession of a wide variety of qualifications and licenses enables us to provide a comprehensive package of building construction contracting services involving one or a combination of our three major services (being building construction works, electrical and mechanical engineering works and alterations, addition, renovation, refurbishment and fitting-out works) as required.

As projects in the building industry may require different expertise for the various works involved and customers increasingly seek contractors with comprehensive services in Hong Kong (particularly property developers who may award a contract involving works in relation to a whole building complex as a single contract according to the Industry Report), we believe that the provision of comprehensive services is one of our competitive strengths and will allow us to grasp many future opportunities.

### **Strong and established business relationship with our sub-contractors**

We have strong business relationships with our major sub-contractors ranging from three years to ten years. We maintain a list of approved suppliers and sub-contractors and engage these entities in our projects thereby developing a close relationship with these sub-contractors. We believe a firm relationship with experienced and qualified sub-contractors is a strength and edge in maintaining our service quality. Our Directors believe that we can leverage on our existing relationship with sub-contractors to further develop new business opportunities while controlling our costs through favourable terms.

### **Established and stringent safety and quality management systems**

We understand the importance of safety and quality controls as it may affect our reputation and our attractiveness to customers, suppliers and staff. In particular some of our customers use workplace safety compliance as one of their assessment criteria for their services providers. Thus, a good compliance track record and management system would increase our chance in obtaining contracts

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from those customers. Accordingly, we have established and implemented an effective management system to oversee safety and quality in our business operations particularly in Hong Kong where most of our operations and revenue are located. We established a quality management system on or before 1997 and established a safety management system in 2001 for our Hong Kong projects as detailed in the paragraphs headed “Workplace safety” and Quality management system” of this section. We have also accredited with ISO 9001: 2008 (quality management) and we were first certified in 1997 as being compliant with the requirements of an earlier version of our current ISO 9001 certification.

### **Effective tendering process and cost control management**

We developed an effective and systematic tender review process during our many years in this industry. Our process involves multiple stages to ensure an accurate estimation of the potential costs of the projects and the requirements involved, effective allocation of our and third party resources, quoting of an attractive fee to our customers while maintaining an acceptable profit margin and effective implementation of the project plan.

### **CORPORATE STRATEGIES**

Our business objectives are to achieve sustainable growth in our current business and to create long-term shareholder’s value by mainly focusing on the Hong Kong and PRC markets in the near term. We intend to achieve this by implementing the following corporate strategies:

#### **Strengthen our position in the Hong Kong market**

In the 2014 Policy Address, the HK Government promised to increase housing supply to 470,000 units over the next 10 years, of which 60% should be public housing. By yearly estimates, the target is to provide an average of 20,000 public rental housing units and 8,000 subsidised Home Ownership Scheme flats annually. The HK Government estimates that private developers, on average, will produce about 13,600 residential flats each year in the next five years. Furthermore, the HK Government will continue to pursue the North East New Territories New Development Areas, as well as the Hung Shui Kiu New Development Areas and the Tung Chung New Town Extension project, to build more residential units. It will also review deserted agricultural land in North District and Yuen Long to study their availability for housing development as early as 2020.

In view of the increasing spending by the HK Government on public works projects and the current growth prospects for private development projects mainly due to the HK Government’s intention to stabilise the local property market by increasing the supply of both the private residential flats and public rental housing flats, our Directors believe that the value of construction work output in Hong Kong will continue to rise and the opportunities available to us will grow steadily. With our proven track record, comprehensive services and numerous licenses, permits and qualifications (details of some of our material ones are set forth under the paragraph headed “Major licenses, permits and qualifications” of this section), we believe that we can grasp such opportunities and take an active part in the building construction works or the incidental electrical and mechanical engineering works and fitting-out works required for such projects. We intend to strengthen our position in the HK market and diversifying our customer base. For example, in May 2014, we became an approved vendor of The Link Management Limited in Hong Kong.

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### Further expand our business into the PRC

Our experience in the building industry in the PRC is long and established and our Directors believe that we were among the first batch of the foreign contractors operating in the PRC to have successfully obtained in September 1994, a Qualification Permit, following implementation of the Provisional Measures for the Control of Quality of Foreign Enterprises Contracting for Construction Works in the PRC (在中國境內承包工程的外國企業資質管理暫行辦法) governing the qualification of foreign contractors operating in the PRC. Currently, we serve our PRC customers mainly through our subsidiaries, Beijing Chang-de and Shanghai Deson in our Beijing and Shanghai offices respectively. During the Track Record Period, our projects located in the PRC include, among others, in Beijing, Shanghai and Tianjin, the PRC. According to Industry Report, urbanisation of the PRC is expected to continue at a rapid pace, which we believe will continue to present opportunities for property development in third- and fourth-tier Chinese cities. In particular, as less-developed third- and fourth-tier Chinese cities rapidly expanding, we believe there will be sustained demand for quality housing and other infrastructures in such cities. We believe that we will be able to selectively expand into third- and fourth-tier Chinese cities leveraging on our established expertise in building construction and first mover’s advantage.

### Continue to expand our scope of services in building construction works

In order to provide comprehensive services to our customers, we intend to expand our services under the building construction works from time to time and apply for additional licenses, permits or qualifications which may be required. For example, to increase our scope of services for building construction works to include site formation, we have applied to the Buildings Department in March 2014 to be registered as a Specialist Contractor (Site Formation Works Category). Should our application be approved by the Buildings Department, we believe our qualification in site formation will complement our other services.

## OUR BUSINESS AND OPERATIONS

### Scope of services

The following table sets out a breakdown of our total revenue during the Track Record Period according to our three major types of services:

	For the year ended 31 March			
	2013		2014	
	HK\$'000	%	HK\$'000	%
Building construction works	135,982	25.2	235,084	28.5
Electrical and mechanical engineering works	160,544	29.7	270,691	32.8
Fitting-out works	243,700	45.1	319,604	38.7
<b>Total</b>	<b>540,226</b>	<b>100.0</b>	<b>825,379</b>	<b>100.0</b>

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### ***Building construction works***

Generally, we serve as the main contractor in building construction works through our subsidiary, Deson Development. Our main responsibilities consist of (i) overall building construction including foundation works, addition and alteration works and project management; (ii) supply or procure the supply of materials and where necessary, engagement of sub-contractors; (iii) ensure the works are in accordance with the contract specification and customer’s requirements; and (iv) liaise with various professional parties to ensure the project is on schedule. Given that building construction projects may incidentally require electrical and mechanical engineering works and fitting-out works, our customers may engage us for comprehensive services such that we perform not only building construction works but also electrical and mechanical engineering works and fitting-out works.

As at the Latest Practicable Date, Deson Development is on the List of Approved Contractors for Public Works — Building Category (Group C) (Confirmed) with the WBDB and is approved as a Registered General Building Contractor and a Specialist Contractor in the category of Foundation Works Category with the Buildings Department.

During the Track Record Period, we performed building construction works in Hong Kong only and include construction of prestige villa projects and the revitalisation and redevelopment of an old industrial building project.

With our experience and our existing customer base, we plan to further expand our building construction services to include site formation works as mentioned in the paragraph headed “Corporate strategies” of this section.

### ***Electrical and mechanical engineering works***

We may serve as main contractor or sub-contractor for electrical and mechanical engineering works through our subsidiary, Kenworth Engineering. Our main responsibilities involve the following three major sub-types:

(i) *Electrical services*

This type of services generally covers the design, supply, installation and maintenance of power supply systems, lighting system and earthing systems. We also ensure that such systems meet both client specifications and relevant safety standards. We also assist in the installation of armoured cables, electrical wiring and trunking, supply and installation of switchboards, power outlets, lighting systems and related electrical equipment and accessories.

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(ii) *Air-conditioning, heating and ventilation engineering services*

This type of services generally covers the supply, installation and maintenance of air-conditioning, heating, mechanical ventilation and exhaust air systems. We also provide pipe-works, ductworks, air conditioning units, ventilation fans and associated accessories.

(iii) *Fire services*

This type of services generally covers the supply, installation and maintenance of fire prevention and fire-fighting systems like sprinklers, fire hydrants, hose reels, fire detectors and alarms and gas extinguishing systems. We also ensure such systems meet relevant fire safety standards.

As at the Latest Practicable Date, Kenworth Engineering is on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works with the HK Government in various different categories including but not limited to Air-conditioning Installation (Group II), Fire Services Installation (Group II), Electrical Installation (Group III) and is also approved as a Specialist Contractor in the Ventilation Works Category (for details, please refer to the paragraph headed “Major licenses, permits and qualifications” of this section).

During the Track Record Period, we performed electrical and mechanical engineering contracting works in Hong Kong only and our projects include building services installation for a promenade in Kwun Tong, Kowloon, Hong Kong as well as building services installation for the transformation of an old police married quarters in Central, Hong Kong into a creative industrial landmark. A summary of our contracts are set out the paragraph headed “Our business and operations — Contracts overview” of this section.

### ***Fitting-out works***

We may serve as a main contractor or sub-contractor for alterations, addition, renovation, refurbishment and fitting-out works in Hong Kong through our subsidiaries, Deson Development and Deson Engineering and in the PRC through our subsidiaries, Beijing Chang-de and Shanghai Deson. Our main responsibilities consist of construction works involving (i) interior decorative and modification, removal or installation of furniture, fixtures and equipment works; (ii) minor works (as defined in the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong)); (iii) changes in external facade works; and (iv) repair and maintenance works.

As at the Latest Practicable Date,

- Deson Development is one of four companies on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works in the category of Turn-key Interior Design and Fitting-out Works (Group II) and is on the List of Approved Contractors for Fitting-out/Renovation Works and Repair/Maintenance Works of some governmental entities and private customers;

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- Deson Engineering is a Registered Minor Works Contractor (company) for Class I, Class II and Class III with the Buildings Department;
- Beijing Chang-de is a registered “Grade I Professional Contractor of Construction and Renovation Works\*” (建築裝修裝飾工程專業承包壹級)”and has the qualification“Grade A Professional Interior Design\*” (建築裝飾工程設計專項甲級); and
- Shanghai Deson is a registered “Grade II Professional Construction, Renovation and Fitting-out Contractor\*” (建築裝修裝飾工程專業承包貳級).

During the Track Record Period, we performed alterations, addition, renovation, refurbishment and fitting-out works mainly in Hong Kong and the PRC. Our projects include fitting out works for a shop of a fashion brand and fitting out works for a department store in a mall in Yuen Long, New Territories, Hong Kong.

### *Revenue by geographic region:*

Set out below is a summary of our revenue during the Track Record Period by geographic region:

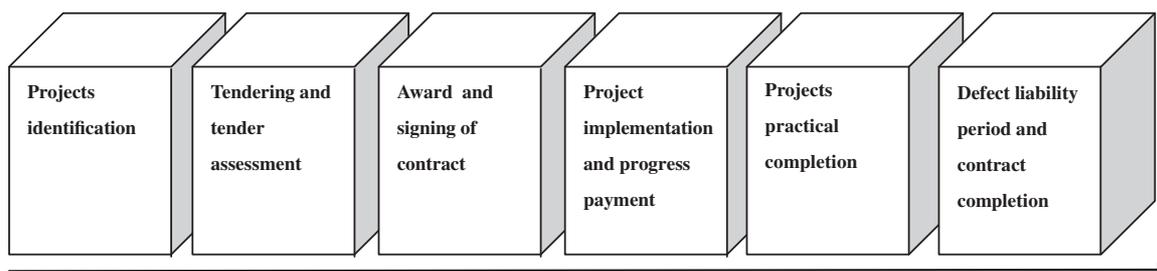
	<b>For the year ended 31 March</b>			
	<b>2013</b>		<b>2014</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong	391,168	72.4	644,825	78.1
PRC	149,058	27.6	158,331	19.2
Macau	—	—	22,223	2.7
<b>Total</b>	<b><u>540,226</u></b>	<b><u>100.0</u></b>	<b><u>825,379</u></b>	<b><u>100.0</u></b>

### *Ad-hoc services in other markets*

We may provide limited ad-hoc services to our customers in other geographic markets where feasible. In 2013, we were engaged by an existing customer to provide fitting-out works in Macau through our subsidiary Deson Macau and we relied on cooperation and sub-contracting of the works to local companies. Revenue from Macau represented nil and approximately 2.7% of our total revenue for the years ended 31 March 2013 and 2014 respectively.

### **General workflow**

The general work-flow of our operations is as follows:



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### ***Projects identification***

#### *General identification methods*

We generally identify potential projects (i) through receiving letter of invitations to tender or otherwise becoming aware of open tenders; or (ii) request for quotations from our customers or their agents. However in both cases, customers commonly take into account such factors such as reputation, track record and contractors on the government’s list of approved contractors and approved specialist contractors. During the Track Record Period, we mainly served customers from the private sector in Hong Kong and the PRC and the public sector in Hong Kong.

#### *Private sector*

In relation to customer from the private sector in Hong Kong and the PRC, we may receive tender invitations or requests for quotations from private customers directly or through their agents. Large corporations and listed companies generally rely on the tender process in selecting their contractors.

#### *Public sector*

In relation to customers from the public sector in Hong Kong including departments of the HK Government and semi-governmental entities, we generally become aware of open tenders by periodic review of publicly available information such as the Government Gazette, local press and for certain customers, their websites. In the case of selective tendering, the relevant entity will also notify us by letter of invitation as we are on the relevant list of approved contractors/suppliers.

#### *Assessment before proceeding*

After becoming aware, we will make an assessment on whether to proceed. In our assessment, we consider, among other things, basic details such as customer, location, services to be provided, fees chargeable, contract period and payment terms. Moreover, we will also consider the requirements of our current projects and whether we have enough spare resources to maintain our standard of quality for new projects. Based on this assessment, we consider whether to bid for the tender or accept the request for a quotation. In the case of tender, we will perform the additional steps below in relation to tendering. In the case of quotations, we will proceed to sending our quotations and usually together with proposed project implementation programme given that quotations are generally for shorter periods of services and lesser scope of works.

If the invitation or request comes from new customers, we normally also assess their background and basic project parameters such as contract period, scope of services, amount of liquidated damages and contractual restrictions. We gather such information through communication with such customers or their agents and our own investigations such as through public searches as part of our assessment in deciding whether to participate in the project.

### ***Tendering and tender assessment***

#### *Tender review process and feasibility study*

After we decide to proceed with the tender, sometimes we may be required to prepare the necessary pre-qualification submissions, study the tender background, complete a forecast review and

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perform a site visit. Pre-qualification is a process used by many property developers to study the eligibility of applicants for tender and the factors considered in this process includes the company and its resources, past job experience, proposed resources to be allocated to the project, proposal for project implementation, safety and environmental protection record. To get a better estimation of the costs, personnel from our contracts and project department during the site visit will assess the complexity of the work and provide recommendation on how to perform the work in an efficient and cost-effective manner.

We have adopted an effective and systematic tender review process. We will assess the feasibility of the undertaking and note the projects technical requirements, proposed project schedule, quality expectation, quantity expectation, a preliminary allocation of resources for the project to determine if we have sufficient resources for current and future works and possible other business risks before deciding to proceed.

### *Pricing strategy*

We pay particular attention to our proposed tender price (including taking into account expected inflationary effects) given that unlike customers from the public sector, customers from the private sector generally do not include price adjustment mechanisms in their contracts and therefore, we may bear the risk of increased costs due to inflation during the course of the project construction. In deciding our price, we take into account a number of factors including (i) our relationship with that customer; (ii) our business strategy on sector penetration; (iii) prevailing market rates, market trends and our recent job quotations; (iv) our available resources; (v) the need for procurement of additional resources (such as materials and equipment); (vi) the need for engaging sub-contractors and adequacy of its labour force; (vii) our budget; (viii) our cost and potential increase in cost during contract term (including the potential effect of statutory minimum wage requirement in particular); and (ix) the requirements of the tender or quotation including job complexity and any specific legal requirements. Details of our tender proposal are generally reviewed and endorsed by our management before being submitted to the customer for consideration.

### *Tender success rate*

Our success rate for tender was approximately 31% and approximately 28% for the years ended 31 March 2013 and 2014 respectively.

### *Award and signing of contract*

Upon being successful in our tender, we will enter into a formal contract. The terms generally found in such contracts are summarised in the paragraph headed “Customers — General terms of contracts with customers” of this section and include, amongst others, the length of the contract, circumstances where the parties have a right to terminate, payment terms and other protective measures for the customer.

### *Project implementation*

During the project implementation stage and taking into account the proposed construction programme in providing our services, we will take the following steps:

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### *Formulating the project management team*

We first form a project management team comprising generally a project manager, engineer, site agent, safety supervisor, foremen and a number of technical staff who are responsible for the works supervision and the day-to-day operations of the project.

### *Preparation of the contractor design and technical submission*

Generally the requirements and specifications in the contract document are only frameworks and it is necessary for our engineering department to transform such requirements into a comprehensive and practical submission to guide the parties. We therefore prepare engineering contractor design such as temporary work design and shop drawing design and technical submission which sometimes involving product samples for customers to gain a better understanding of the product quality.

### *Procurement of additional equipment and materials and if required, sub-contracting of works to sub-contractors*

We generally bulk-purchase the materials from third parties and purchase or lease equipment where necessary for our projects but we may assign responsibility to sub-contractors for obtaining certain materials along with the sub-contracted works. To ensure quality of our services, we have a stringent procedure for selecting and engaging suppliers and sub-contractors from our list of approved suppliers and sub-contractors for our projects as details in the paragraph headed “Suppliers and sub-contractors — Criteria for selecting suppliers and sub-contractors” of this section.

### *Project monitoring and quality management*

The project manager or site agent and other members of the project management team will closely monitor and supervise the works carried out by the sub-contractors to see if they conform to the design drawing and specifications. In order to ensure consistent quality of service in the project, we have adopted a number of measures such as an approved method statement and procedure and site supervision plan. For further details of further measures, please refer to the paragraph headed “Quality management system” of this section. Where we have engaged sub-contractors, we will monitor and supervise their performance quality, check that they and their employees follow our guidelines and conduct periodic progress meetings to address specific issues.

If we are the main contractor, we will also render coordination role to liaise with the customer, their consultant and agents and the other service providers directly employed by the customer to resolve technical matters in relation to the project so that a quality, cost-effective and timely project can be achieved as scheduled.

### *Variation orders*

During the course of the project, our customers may require additional services or changes in the specifications which will result in extra costs to be charged by us and in our experience, such amount varies and may reach up to as 10% of the contract sum. Although we will continue to apply for progress payment for such variation orders during the course of the projects, the final amount to be charged for such variation orders is subject to negotiation between the parties and part of the costs may be settled after practical completion date of the project.

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### ***Application for payment and certification***

#### ***Payment from our customers***

According to the relevant contract, we normally receive progress payments during the contract period which is generally on a monthly basis. In order to receive such payment, we normally make an application for interim payment for work done (including contract work and variation order work) completed and our customer’s agents will examine the completed work done at that stage and issue a certification on completion of the relevant works. In practice, this certification process generally takes around one month. Upon presentation of the certified payment certificate, customers from the public sector generally honour the certified payment within 21 days and customers from the private sector generally honour the certified payment within 30 days.

#### ***Payment to our suppliers and sub-contractors***

Similarly, our suppliers are entitled to receive payments for materials and equipment delivered to the site according to the payment terms set out in the supply contract. Our sub-contractors are entitled to receive progress payments with similar terms as us. In order to receive payments, they will also make an application for interim payment and we will verify or inspect their work completed before issuing a certificate. We normally make payment within one month from their application. Sometimes, we will adopt a ‘pay when paid’ approach with sub-contractors where we only pay sub-contractors when we have received the same from our customer.

### ***Practical completion***

Generally, there is a practical completion date when our contract works are completed and our customer’s agent is satisfied with our work. This date is signified by the issue of a Practical Completion Certificate by the aforesaid agent certifying the work or the project can be handover to the customer for use or habitation.

### ***Defect liability period and contract completion***

The whole contract period normally includes a defect liability period during which we remain responsible for rectifying any defects identified by the customers’ agents without charge. This period is generally 12 months after the practical completion date of the project.

There is a final completion date representing the end of the project, which is usually after the issuance of the certificate of completion of making good any defects.

During the Track Record Period, we did not receive any materials claims from our customers for defects during the defect liability period.

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### Contracts overview

#### *Completed contracts during the Track Record Period and up to the Latest Practicable Date:*

Set out below is a summary of the completed contracts (based on the practical completion date) during the Track Record Period and up to the Latest Practicable Date by our three major types of services:

	For the year ended 31 March 2013			For the year ended 31 March 2014			From 1 April 2014 to the Latest Practicable Date		
	Number of completed contracts	Range of contract period months	Aggregate contract sum for such contracts (Note) 'million	Number of completed contracts	Range of contract period months	Aggregate contract sum for such contracts (Note) 'million	Number of completed contracts	Range of contract period months	Aggregate contract sum for such contracts (Note) 'million
Building construction works	2	4 to 27	80	1	41	97	2	18 to 27	233
Electrical and mechanical engineering works	78	1 to 29	72	65	1 to 30	162	9	1 to 24	27
Fitting-out works	129	1 to 6	384	100	1 to 12	334	5	1 to 6	1
<b>Total:</b>	<u>209</u>	<u>1 to 29</u>	<u>536</u>	<u>166</u>	<u>1 to 41</u>	<u>593</u>	<u>16</u>	<u>1 to 27</u>	<u>261</u>

*Note:* The contract sum may be greater than the amount of revenue recognised for that contract during the Track Record Period, if any revenue from such particular contract was recognised before the commencement of the Track Record Period. Furthermore, the contract sum does not take into account any (i) variation orders issued by our customers; (ii) sums for sub-contractors nominated by our customers; and (iii) any provisional sums being sums of work which may or may not be carried out at all but was in original contract scope of works.

#### *Variation orders for completed contracts during the Track Record Period and up to the Latest Practicable Date*

The total amount from variation orders known as at the Latest Practicable Date for contracts completed during the Track Record Period and up to the Latest Practicable Date were as follows:

Year/period of the completed contracts which the variation orders relate	Known variation order total amount as at the Latest Practicable Date million
For the year ended 31 March 2013	95
For the year ended 31 March 2014	139
Period from 1 April 2014 to Latest Practicable Date	18

*Note:* The final settlement amount from variation orders may be different from the total amount above, as the amount settled will be based on the final account agreed between the parties.

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***On-going contracts as at the Latest Practicable Date:***

Set out below is a summary of the on-going contracts by our three major types of services and which we continue to provide services as at the Latest Practicable Date:

	Number of current contracts	Range of contract period <i>(Note)</i> months	Range of remaining contract period <i>(Note)</i> months	Aggregate contract sum million	Amount of revenue recognised during the Track Record Period million	Remaining amount of revenue to be recognised million
Building construction works	3	7to16	1to 7	318	102	216
Electrical and mechanical engineering works	26	2to43	1to36	438	136	295
Fitting-out works	86	1to44	1	374	274	50
<b>Total:</b>	<u>115</u>	<u>1to44</u>	<u>1to36</u>	<u>1,130</u>	<u>512</u>	<u>561</u>

*Note:* This period is based on the period stated in the relevant contract but may be subject to change such as due to early completion or any application for extensions. Where there is no expected completion date specified in the contract, the period is based on the best estimation of the management of our Group based on their experience doing similar types of work. Furthermore, the contract sum does not take into account (i) any variation orders issued by our customers; (ii) sums for sub-contractors nominated by our customers; and (iii) any provisional sums being sums for work which may or may not be carried out at all but was in original contract scope of works.

***Variation orders for on-going contracts as at the Latest Practicable Date***

The total amount from variation orders known as at the Latest Practicable Date for on-going contracts was approximately HK\$34 million. This total amount may change based on additional variation orders and the final account agreed between the parties.

***On-going contracts as at the Latest Practicable Date by expiry date***

Set out below is a summary of the on-going contracts as at the Latest Practicable Date by their expiry dates:

	Number of contracts	Aggregate contract sum million
On or before 31 March 2015	106	306
After 1 April 2015 but before 30 September 2015	—	—
After 1 October 2015 but before 31 March 2016	1	11
On or after 1 April 2016	<u>8</u>	<u>244</u>
<b>Total:</b>	<u>115</u>	<u>561</u>

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### *Recent tendering*

Subsequent to 31 March 2014, we have been awarded with six new tenders of contract value over HK\$1 million. These six contracts have an aggregate contract sum of approximately HK\$163.3 million with one contract mainly relating to fitting-out works and five contracts mainly relating to electrical and mechanical engineering works.

Given the positive trends and opportunities in the building industry as set out in the section headed “Industry overview” of this document, our tender success rate in the past and our background and experience and our continuous efforts to seek new tenders as part of our normal operations, our Directors believe that we will continue to grasp new opportunities for works in the building industry.

## CUSTOMERS

### Customers

During the Track Record Period, we mainly served customers from the private sector in Hong Kong and the PRC as well as the public sector in Hong Kong. Customers from the private sector include property re-developers, luxury brand shop operators, building owners, operators of department stores and educational establishments. Customers from the public sector include departments of the HK Government (including a department responsible for electrical and mechanical services and another department responsible for architectural services) and semi-government bodies such as Hong Kong authorities with substantial government investment or influence.

During the Track Record Period, our revenue contribution by sector of our customers is set out below:

	For the year ended 31 March			
	2013		2014	
	HK\$'000	%	HK\$'000	%
Private sector	425,414	78.7	689,254	83.5
Public sector ( <i>Note</i> )	<u>114,812</u>	<u>21.3</u>	<u>136,125</u>	<u>16.5</u>
<b>Total:</b>	<u>540,226</u>	<u>100.0</u>	<u>825,379</u>	<u>100.0</u>

*Note:* For purpose of this calculation, public sector customers include semi-government entities such as Hong Kong authorities with substantial government investment or influence.

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During the Track Record Period, our five largest customers and details of our relationship are summarised below:

	Services provided by our Group during the Track Record Period <i>(Note 7)</i>	Approximate number of years since we first served each customer	For the year ended 31 March	
			2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Customer A <i>(Note 1)</i>	(iii)	15	73,302.5	97,247.7
Customer B <i>(Note 2)</i>	(ii) and (iii)	6	69,648.1	123,717.0
Customer C <i>(Note 3)</i>	(i) and (ii)	2	64,840.0	94,248.5
Customer D <i>(Note 4)</i>	(ii)	9	41,220.8	38,205.1
Customer E <i>(Note 5)</i>	(i) and (ii)	4	36,106.0	74,651.0
Customer F <i>(Note 6)</i>	(i) and (ii)	1	3,243.0	58,907.4

*Notes:*

- (1) A department of the HK Government responsible for architectural services. It was one of our top five customers for the years ended 31 March 2013 and 2014.
- (2) Retailer and distributor of luxury brand(s) and HK incorporated company which is a subsidiary of a HK listed company whose principal business is the design, production and distribution of high-end leather goods, handbags, footwear, apparel, accessories, eyewear and fragrances. It was one of our top five customers for the years ended 31 March 2013 and 2014.
- (3) Property developer and HK incorporated company. It was one of our top five customers for the years ended 31 March 2013 and 2014.
- (4) A department of the HK Government responsible for electrical and mechanical services. It was one of our top five customers for the year ended 31 March 2013 only.
- (5) Property developer and BVI incorporated company. It was one of our top five customers for the years ended 31 March 2013 and 2014.
- (6) Property developer and HK incorporated company. It was one of our top five customers for the year ended 31 March 2014 only.
- (7) Types of services provided
  - (i) Building construction works
  - (ii) Electrical and mechanical engineering works
  - (iii) Fitting-out works

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For the years ended 31 March 2013 and 2014, aggregate revenue generated from our five largest customers represented approximately 52.8% and approximately 54.4% respectively our total revenue, while revenue from our largest customer represented approximately 13.6% and approximately 15.0% respectively of our total revenue.

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

We have a good relationship with our customers. Our Directors confirmed that there was no termination of major contracts and no material default by our customers during the Track Record Period and up to the Latest Practicable Date. However, during the Track Record, a sub-contract where we were engaged as a sub-contractor was terminated in September 2013 because the main contract between the main contractor and its customer was terminated. Based on our understanding, the termination was due to the main contractor’s default concerning the progress of the works and we confirm it was not due to our fault. We estimate that we are owed an interim payment of approximately HK\$0.30 million was not paid as at the Latest Practicable Date for works completed at this stage.

### **General terms of contracts with customers**

The general terms of contracts may vary based on negotiations with our customers but generally follow the form set out in our customer’s tender. The major contracts terms are summarised below.

#### ***Contract period and termination***

Our contracts are generally one to three years but may be subject to application for extension of time so that original contract period may be extended. Generally, our contracts provide both parties the right to termination in different specific circumstances.

Grounds upon which contracts may be terminated by our customers generally include if we (i) without reasonable cause abandon or suspend to carry out the contracted works; (ii) fail to proceed with the contract work diligently; (iii) fail to comply with the written notices or orders issued by the agents of the customer; (iv) become bankrupt or go into liquidation or a petition has been filed for our bankruptcy; or (v) make a general assignment, composition or arrangement for the benefit of creditors.

Grounds upon which these contracts may be terminated by us generally include if our customer (i) fails to remedy within a specified period of time a material breach of the contract including failure to pay us for any certified sum within the period specified; (ii) becomes bankrupt or goes into liquidation or a petition has been filed for their bankruptcy; or (iii) makes a general assignment, composition or arrangement for the benefit of creditors.

#### ***Scope of services and resource allocation***

The contracts generally include specification as to the scope of services and may include relevant specifications and requirements to be complied with. The contract may also include the number of technical staff to be allocated to the project.

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### ***Payment terms and progress payment***

The service contract will set out the contract amount chargeable by us (including circumstances for adjustment) and the payment terms. The contract amount chargeable is generally fixed price contract sum or without any clear price adjustment mechanism except for some contracts from customers in the public sector in Hong Kong, which generally allow for adjustment by us with reference to certain price indices such as the index for the average daily wages of workers and the index for the average wholesale prices of selected materials compiled and published by the Census and Statistics Department of Hong Kong.

We are generally entitled to make an application for progress payments for completed works of the current month and we make such applications on a monthly basis which will be submitted to the agents of our customers generally at the end of each current month. This payment is subject to satisfaction of the inspection and assessment by agents of our customers and issuing of a certificate. In practice, this certificate process generally take around one month upon presentation of the certified payment certificate, customers from the public sector generally honour the certified payment within 21 days and customers from the private sector generally honour the certified payment within 30 days.

During the Track Record Period, all revenue from our services was denominated in Hong Kong dollars and Renminbi. Generally, the payment method is by cheque or bank transfer.

### ***Retention monies***

Customers are generally entitled to hold up retention money from the progress payment. In our experience and during the Track Record Period, customers from the public and private sectors generally hold up 1% to 5% of the contract sum as retention money however, they will normally release (i) 50% of the retention money upon completion of the project; and (ii) the remaining 50% of the retention money upon the end of the defect liability period, subject to the customer being satisfied with the completed work. As at 31 March 2013 and 2014, the retention monies receivable were approximately HK\$7.9 million and approximately HK\$13.5 million respectively.

### ***Defect liability period***

We are generally responsible during a specified defect liability period for rectifying all defects for the project. This period is normally 12 months from the practical completion of the project. As set out in paragraph headed “Suppliers and sub-contractors — General terms of contracts with sub-contractors” of this section, we generally require a similar defect liability period from our sub-contractors.

### ***Surety bonds***

In order to secure proper performance, customers may require that we provide them with a surety bond issued by a bank or insurance company in favour of the customer.

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For private and some semi-government projects, the surety bond is generally required to be provided within one month after a tender is awarded to us. If this bond is not provided, the customer may retain an aggregate amount equal to such bond amount from our progress payment. During the Track Record Period, the amounts of surety bonds required are generally 10% of the contract sum. In our experience, our public projects did not request us to provide a surety bond to our customers.

As at 31 March 2013 and 2014, surety bonds issued by banks or insurance companies to our customers amounted to approximately HK\$38.6 million and approximately HK\$55.4 million respectively. Such bonds are generally released upon practical completion of the relevant service contract. Given that such bonds were issued by our bank or insurance companies in favour of the relevant customers, we do not recognise any liabilities on our combined statements of financial position until such bonds are deducted by our customers due to breaches of contract terms as from our experience we believe the occurrence of the aforesaid is remote. We are generally required to provide a counter-indemnity to the bank or insurance company that issues such surety bonds for us to our customers in relation to the contract.

The Company confirmed that during the Track Record Period, there was no bond call action taken by our customers due to breach of contracts.

### ***Protective provisions for customers***

We may be required to pay liquidated damages to our customers if we do not perform our contracts in a timely manner. Under the terms of the contract, we may be required to pay liquidated damages with reference to a fixed rate or formula determined in the contract usually taking into account the delay in the completion of the project on a daily basis.

Our Company confirms that during the Track Record Period and up to the Latest Practicable Date, we had one dispute with a customer concerning a late delivery incident involving a short delay in completion of the project due to an increase in the scope of our works requested by our customer during the project. This dispute is now settled by a deduction of approximately HK\$450,000 as liquidated damages from the total agreed final contract sum of approximately HK\$164.0 million paid to us, and therefore even after such deduction, this project was not loss-making. Other than this case, it is not aware of any other material delays in the current projects which are expected to result in liquidated damages being imposed on us.

### **Sales and marketing**

Due to our well-established relationship with our existing customers, our long operating history in Hong Kong and the PRC and the common use of tendering in the industry, we are able to rely on our existing customer base, reputation and client referrals as well as awareness of public tenders. We do not rely heavily on promotional materials.

### **Seasonality**

We have not experienced material seasonal fluctuations in our revenue given that our industry is generally not subject to seasonality.

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### COST CONTROLS AND CREDIT MANAGEMENT

Due to our substantial experience in the industry and our experienced staff, we are able to take into account potential changes in costs in our estimated fee during the tender process rather than adjusting our fees on an ad-hoc basis after such increases. Generally, we employ a strict system to control the costs of our projects and avoid situations of cost overrun which consists of the following measures:

Stage	Measures
<i>Project identification and tender stage</i>	<ul style="list-style-type: none"><li>• During the site visit, we will assess the complexity of the work and provide recommendation on how to perform the work in an efficient and cost-effective manner.</li><li>• We will calculate the potential costs (and increases thereof during the term of the contract) based on our experience in the industry, details of the tender specifications and site visit by our staff. This analysis will be included in our forecast review and the price is generally reviewed by management before being sent to our customers.</li><li>• We may sub-contract part of our work to sub-contractors, where it is considered cost effective. Given that the terms with our sub-contractors generally include fixed fees, where their responsibility includes providing their own labour and materials, they will subject to the increase in costs for such sub-contracted part. Furthermore, sub-contracting generally allows us to maintain less full-time employees which limit the effects of minimum wage increases on us.</li></ul>
<i>Project implementation stage</i>	<ul style="list-style-type: none"><li>• We review the status of completed works, apply for progress payments on monthly basis and closely monitor payments made by our customers.</li><li>• Before making payments for goods delivered by suppliers and progress payments to sub-contractors, our staff generally verifies the information before payment. Our management generally sign off on the verification before payment is made so as to ensure sufficient checking before payment.</li></ul>

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### **Stage**

### **Measures**

- Where we have sub-contractors, we regularly liaise with them to ensure progress of the works and to quickly address issues which may cause delay or additional costs. In some cases, we have adopted the ‘pay when paid’ approach, where we make payments to the relevant sub-contractor only after having been paid by our customer.

In instances involving contracts with customers from the public sector in Hong Kong, there is generally a price adjustment mechanism for rises in wages for works and costs for certain materials as set out in the paragraph headed “Customers — General terms of contracts with customers” of this section. However, such adjustment mechanisms are less common in contracts with customers from the private sector and instead there may be negotiations with our customers in the event of such increases.

As set out in the section headed “Risk factors — Majority of our service contracts with customers have a fixed and pre-determined service fee. Our profitability may be adversely affected if we suffer from cost overrun or if the contracts are earlier terminated.” of this document, given the fixed price contract sum chargeable by us, we may be subject to risks due to the increase in costs during the period of the contract. However, our Directors believe that we have been able to address this risk during the Track Record Period, due to the abovementioned factors and given the general length of our contracts being a few years as well as the availability of progress payments.

For the years ended 31 March 2013 and 2014, our average trade receivable turnover days were approximately 38.3 days and approximately 30.5 days respectively.

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**SUPPLIERS AND SUB-CONTRACTORS**

**Suppliers**

Our suppliers include suppliers of materials (such as concrete, steel reinforcement, cables and switch boards) and service providers (such as our sub-contractors). Most of our suppliers of materials are sourced from Hong Kong and the PRC. Our top five suppliers during the Track Record Period are all sub-contractors and Independent Third Parties.

During the Track Record Period, our five largest suppliers and details of our relationship are summarised below:

	Approximate number of years since we first engaged each supplier	For the year ended 31 March	
		2013	2014
		HK\$'000	HK\$'000
Supplier A ( <i>Note 1</i> )	4	68,801.3	88,420.1
Supplier B ( <i>Note 2</i> )	10	58,266.7	37,235.9
Supplier C ( <i>Note 3</i> )	4	31,896.7	40,341.4
Supplier D ( <i>Note 4</i> )	7	30,945.0	30,348.2
Supplier E ( <i>Note 5</i> )	3	25,824.4	35,039.4
Supplier F ( <i>Note 6</i> )	4	4,112.9	31,694.9

*Notes:*

- (1) Construction services provider and HK incorporated company. It was one of our top five suppliers for the years ended 31 March 2013 and 2014 and provided services in relation to interior fitting out work as and mechanical and engineer works.
- (2) Foundation services provider and HK incorporated company. It was one of our top five suppliers for the years ended 31 March 2013 and 2014 and provided services in relation to site formation and foundation works.
- (3) Fire and hydraulics services provider and HK incorporated company. It was one of our top five suppliers for the years ended 31 March 2013 and 2014 and provided services in relation to addition, alteration and maintenance of fire services works.
- (4) Electrical and mechanical engineering services provider and HK incorporated company. It was one of our top five suppliers for the years ended 31 March 2013 only and provided services in relation to electrical installation and mechanical ventilation and air conditioning works.
- (5) Construction services provider and HK incorporated company. It was one of our top five suppliers for the years ended 31 March 2013 and 2014 provided services in relation to addition, alteration and maintenance of electrical installation works.
- (6) Construction services provider and HK incorporated company. It was one of our top five suppliers for the year ended 31 March 2014 only and provided services in relation to structural addition and alteration works, reinforcement concrete works and site cleaning works.

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For the years ended 31 March 2013 and 2014, our purchases of services from the five largest suppliers were approximately 44.0% and approximately 30.6% respectively of the total purchases from all suppliers, while our purchases from the largest supplier were approximately 14.0% and approximately 11.6% respectively of the total purchases from all suppliers.

We generally maintained multiple suppliers for services and products to avoid over-reliance on a single or a few suppliers and did not experience any material difficulties in sourcing materials or finding sub-contractors during the Track Record Period.

No long term contracts had been entered into between our Group and its top five suppliers during the Track Record Period. However, the length of our relationship with them ranges from three to ten years. Our Directors confirm that we did not have any significant disputes with any of our top five suppliers during the Track Record Period.

None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of our five largest suppliers during the Track Record Period.

During the Track Record Period, our purchases were all settled in Hong Kong dollars and Renminbi and most of them were settled by letter of credit or cheques. Most of our purchases are settled on a monthly basis and in arrears. Credit terms offered by our suppliers range from due on presentation of invoice up to a period generally not less than 30 days after delivery of goods or performance of services.

**Major supplier who was also our customer**

During the Track Record Period, to the best knowledge and belief of our Directors, one of our customers and/or their related group companies (“Supplier E”) was also our major supplier. Particular financial details of our business relationship during the Track Record Period with Supplier E are as follows:

	<b>For the year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
<i>Supplier E as our customer</i>		
-Our revenue from Supplier E as percentage of our total revenue during the relevant year	4.9%	4.3%
-Gross profit (HK\$ million)	0.5	0.7
<i>Supplier E as our supplier</i>		
- As percentage of our total cost of service during the relevant year	5.1%	4.5%

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To the best of our Directors’ knowledge and belief, Supplier E is an Independent Third Party and also in the building industry but with particular focus on addition, alteration, maintenance of electrical installation works in Hong Kong. We understand that out of the tender contracts successfully awarded to Supplier E by its customers, there were term contracts for the alterations, additions, maintenance and repair of buildings and lands and other properties awarded by HK Government. Customer E sub-contracted the electrical installation works to us for such HK Government projects. To ensure the quality of works and timeliness of completion, at the request of Supplier E, we agreed that if we decide to further sub-contract any part of the works during the course of the projects, we will allow Supplier E to arrange for further sub-contracting arrangements under our supervision and management with the relevant reimbursements by us.

Our Directors believe that it is not uncommon in the building industry for a contractor to sub-contract its works in a project to other sub-contractors. Our Directors confirm that the terms of the specific sub-contracting arrangements were negotiated on an arm’s length basis and during the Track Record Period, we did not have any material disputes with Supplier E over late non-payment or quality of service.

### **Criteria for selecting suppliers and sub-contractors**

We are careful in choosing our suppliers and maintain a list of approved suppliers and sub-contractors which is updated from time to time. As at the Latest Practicable Date, our list of approved suppliers had over 700 suppliers and sub-contractors, including over 300 suppliers of materials and equipment and over 400 sub-contractors. At least once a year, we will review the current list and consider whether any should be removed/replaced based on the quality of their products or their job performance during the year.

To ensure the quality of our services and except if certain suppliers or sub-contractors are designated by our customer for the project, we refer to these lists when selecting a supplier or sub-contractor for our projects. We take into account the following factors before selection of a new supplier and sub-contractor and in considering whether to remove a current approved supplier and sub-contractor:

- safety performance
- quality of materials/quality of workmanship
- on-time delivery/on-time service
- product availability/control of materials
- packing to prevent damage/perform on-site inspection
- promptness in follow-up on orders/replacement service
- promptness in corrective action

### **Materials and equipment**

The major materials used by us are concrete, steel reinforcement, cables and switch boards which are mainly sourced from suppliers in Hong Kong and PRC but dependent on the required specification, such suppliers may have sourced their products from overseas. Depending on the requirements of the project, we may purchase materials and purchase or lease equipment for our use. In certain cases, we

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may be responsible instead of our sub-contractors for purchasing materials for their use. Given that the amount and timing of materials to be ordered during the project implementation stage is assessed by our project management team on a project-by-project basis depending on the progress of works and specific requirements of each projects and arrange for delivery of materials to the project site, we are able to avoid risk of damage while in storage as well as storage costs. Furthermore, this means we carry no inventories of materials.

### **Sub-contractors**

#### ***Reasons for sub-contracting***

Depending on the cost effectiveness of using sub-contractors, the availability of our internal resources, the relevant licensing or specialist requirements and level of complexity of the works, we may sub-contract our works to sub-contractors. For the years ended 31 March 2013 and 2014, sub-contracting sums incurred by us amounted to approximately HK\$484.4 million and approximately HK\$694.7 million respectively, representing approximately 96.1% and approximately 89.3% of our total cost of sales over the same period. During the same period, our Group’s largest sub-contractor accounted for approximately 13.6% and approximately 11.4% of our Group’s total cost of sales and our Group’s five largest sub-contractors accounted for approximately 42.8% and approximately 29.9% of our Group’s total cost of sales respectively.

We consider that given the common use of sub-contractors in the industry and the cost advantages of not maintaining an excess level of permanent staff for one-off projects, we expect to continue engaging sub-contractors. During the Track Record Period, we did not experience any difficulty in procuring services from our sub-contractors. So far as our Directors are aware, during the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims from our customers in respect of the quality of services performed by our sub-contractors.

#### ***Sub-contracting risks***

Pursuant to either the contract with our customers or applicable laws, we generally remain liable to our customers for poor performance by of our sub-contractors. We may also be liable under applicable safety regulations if our sub-contractors do not ensure that their employees comply fully with our workplace safety measures.

Additionally, we are also generally liable to any potential employee compensation claims and personal injuries claims made by the employees of our sub-contractors arising from works injuries as may happen during the course of the projects where we assign works to such sub-contractor. We have maintained insurance policies to fully cover personal injuries and third party damages.

During the Track Record Period and up to the Latest Practicable Date, we received certain claims of the type mentioned and details of which are set out in the paragraphs headed “Litigation and claims” and “Workplace safety” of this section. If the fault is due to the sub-contractors or their employees, the terms of our contract with sub-contractors generally require them to indemnify us for the aforementioned liabilities or deduct the relevant amounts from amounts owed by us for the relevant sub-contracting service under the term of our sub-contract with them.

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### ***Management of sub-contractors to minimise risks***

Given the above risks, we are careful in selecting and engaging sub-contractors on our list of approved suppliers and sub-contractors for our projects. We supply our sub-contractors with our safety manual on work-place safety, organise relevant safety training and have implemented other quality and workplace safety measures as detailed in the paragraph headed “Quality management system” and “Workplace safety” of this section. Our on-site project management team also regularly monitors the site and we will hold regular meetings with them during the course of a project to discuss major issues concerning the progress, ensure the quality of their works and compliance with relevant safety and environmental protection measures by our sub-contractors and their employees.

### **General terms of contract with sub-contractors**

As at the Latest Practicable Date, our Group has a set of standard service contract with sub-contractors. This standard service contract may be modified to mirror certain terms with our customers. The material terms of this standard service contract are set out below:

### ***Scope of services, qualifications and project implementation***

Based on the needs of the project and resources of our Group, the scope of services, qualifications to be held by them or their staff and the resources to be allocated are set out in the contract. Generally, the sub-contracting agreements also contain a clause to the effect that sub-contractors are required to comply with the relevant main contracts on a back-to-back basis.

Furthermore, we generally require our sub-contractors to follow our directions and guidelines, our safety manual and compliance with applicable laws and regulations including a prohibition on engaging illegal workers.

### ***Contract period and termination***

There is a contractual period stipulated in the sub-contracts for the sub-contractors. As we are engaged by our customers on a project-by-project basis, we generally do not include any renewal clause for contracts with our sub-contractors. We have the right to terminate the sub-contract if, amongst others, the sub-contractor (i) had abandoned the sub-contract; (ii) without reasonable cause has failed to commence the sub-contract works or has failed to proceed with the sub-contract works diligently; (iii) has failed to comply with the written notices or orders issued by us; or (iv) becomes bankrupt or go into liquidation or a petition has been filed for its bankruptcy.

### ***Sub-contract amount payable, security and payment terms***

The service fee contract will set out the sub-contract amount payable and the payment terms. This amount is generally determined after negotiation of the sub-contractor’s fee as estimated by the sub-contractor for the sub-contracted works. We may be entitled to keep retention monies. The sub-contract amount payable is generally a fixed price contract sum. Therefore, our sub-contractors generally bear the risks of cost increases for works sub-contracted to them. If a price adjustment mechanism is provided by our own customer, we may provide similar terms to our sub-contractor.

Similar to our terms with our customers, our sub-contractors are generally entitled to apply for progress payments subject to satisfaction of the works completed.

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### *Insurance and indemnity*

We specify in contracts with our sub-contractors whether we or our sub-contractors are responsible for purchasing (i) employees’ compensation insurance; (ii) contractor all risk insurance; and (iii) construction liability insurance. In the case we are responsible for purchasing the public liability insurance, if the insurer refuses to cover such liability and we are held liable for incident, we require our sub-contractors to indemnify us for such liability. Additionally, our sub-contractors are generally responsible for defective services provided by them or their sub-contractors and they must rectify and/or indemnify us for such defects.

### QUALITY MANAGEMENT SYSTEM

#### Aspects of our quality management system

Our quality management system in Hong Kong is overseen by our project management personnel and is implemented by our site management teams. Different departments also have their own particular responsibility regarding different aspects of operations which may affect quality. Our main quality management measures are set out below:

#### Main measures

#### Details

*Sufficient planning and analysis of project requirements at the beginning*

During the project identification and tender stage, we review and record the contractual requirements and performance of such requirements up to completion to ensure sufficient planning is made prior to the project implementation stage.

*Careful selection of suppliers and sub-contractors*

We maintain a list of approved suppliers and sub-contractors and generally only engage those on this list for our projects to ensure quality of materials and services sub-contracted. We also make other assessments prior to selection as detailed in the paragraph headed “Suppliers and sub-contractors — Criteria for selecting suppliers and sub-contractors” of this section. Furthermore, we generally discourage our sub-contractors to further sub-contract their works.

*Regular monitoring of service quality and meetings with sub-contractors*

During the project implementation stage, we perform regular inspection to ensure sufficient progress of the project and compliance with our guidelines. We also arrange regular meetings with our sub-contractors so as to quickly address material issues including quality issues and ensure sufficient resources are allocated for completion of the project on schedule.

*Update client on progress and receive feedback from client*

To ensure customer satisfaction, we regularly communicate with our customers to keep them informed of the status of the project as well to get their feedback. We perform follow-up actions based on their comments and also make note of their feedback for future reference.

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### **External audit in Hong Kong of our quality management system**

Our quality management system in Hong Kong was first certified in 1997 as being compliant with the requirements of a predecessor of our current ISO 9001 certification. We are currently in compliance with the ISO 9001:2008 certification as accredited by the Hong Kong Quality Assurance Agency (“**HKQAA**”). According to the regulations of HKQAA, the ISO 9001 certification shall be renewable (subject to compliance with HKQAA regulations) every three years, and surveillance visits will be conducted at least once every year of certification. Our Directors have confirmed that in its most recent visits in 2013 and 2014, the HKQAA auditor had not identified any material deficiencies in relation to workplace safety or regarded any of our corrective measures as ineffective and the findings of such visits were satisfactory regarding our compliance with the relevant standings.

HKQAA is a non-profit-distributing organisation established by the HK Government in 1989. It helps industrial and commercial bodies develop quality, environmental, safety, hygiene and social management systems. HKQAA is recognised by the HK Government to, among other things, operate the scheme for certifying corporate as having a managing system that complies with the various applicable standards in order to be certified under the regulations as published by the International Organisation for Standardisation (ISO)/or other relevant organisations from time to time. According to the information published by the HK Government, the HKQAA is qualified to grant certification in respect of, among other things, the standard under ISO 9001:2008.

### **WORKPLACE SAFETY**

#### **Aspects of our safety management system**

We are committed to provide a safe and healthy working environment for both our employees and employees of our sub-contractors and we treat their safety as a matter of the highest priority. We believe that besides our obligations to our customers and under applicable laws, work-place safety is important for maintaining our reputation and attracting skilled employees and future business opportunities. Our safety management system therefore involves not only identification of risks in different types of works to reduce the risk levels but also to provide information, instruction, training and supervision to enhance awareness of hazards, safe practices and improve emergency preparedness. Our safety management system in the PRC follows the requirements of the relevant laws and regulation and as we normally a sub-contractor for fitting-out works in the PRC, we also follow the safety management system of the main contractor.

Set out below is a summary of the main aspects of our safety management system in Hong Kong:

#### ***Safety manual***

We have a detailed safety manual which was first issued in 2001 and which has been updated over the years. The safety manual is reviewed at least once a year to incorporate best practices or to address and improve specific areas of our system as part of the continuous improvement of our safety management system. Our safety manual is distributed and applies to not only our staff but also our sub-contractors, consultants and materials suppliers.

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### ***Specific work-place safety rules and procedures and safety training***

We require our employees and our sub-contractors’ employees to understand and follow our work-place safety rules as set out in our safety manual. Our work-place safety rules identify common safety and health hazards and the best practices to prevent or at least minimise the impact from such hazards.

For example, our rules and procedures for working at height provides out that when work cannot be done safely on a ladder or other temporary staging, a suitable working platform (being a platform with firm footing and with guardrail around all edges) should be provided to enable workers to complete the task safely. Furthermore, to prevent dangers of falling objects, safe means of access to and from the site should be provided. It additionally provides for routine inspection to ensure soundness of such platforms, the minimum size of the platforms in certain cases and suggestions for alternative arrangements where certain measures are impractical. Additionally, the safety manual will refer to relevant laws and regulations as well as relevant code of practices issued by departments of the HK Government for reference.

As another example, our safety manual covers use of personal protective equipment (such as safety helmets), the international standards such equipment should comply with and the responsibilities of our site management team and sub-contractors in enforcement of personal protective equipment.

Our project manager for each project is responsible for holding a safety induction course for our employees and our sub-contractor’s employees. He/She is also responsible for establishing in-house safety rules. Additionally, the safety officer or safety supervisor will periodically conduct safety training for the workers on site. We generally require all persons working on site to keep safety training attendance records for our checking.

### ***Safety committee and site safety committee***

We have an established safety committee since 2001, which is responsible for overseeing and implementing the safety management system in relation to our Hong Kong projects, ensuring the system in place is in compliance with the relevant health, safety and environmental standards and considering feedback from employees concerning our current work-place safety measures. Members of the committee include the acting safety director, safety officer and safety supervisor in charge, who have the relevant qualifications and industry experiences. The committee meets four times annually to set performance targets for improvement purposes. The committee will also meet periodically to seek feedback from site management for purposes of reviewing and assessing safety policies, accident rates and any non-compliance with applicable laws and regulations as well as providing recommendations.

Site safety committees are established for individual projects and besides our site management team, they also comprise of representatives of our sub-contractors and certain representatives of the site workers.

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### *Clear delineation of responsibility and communication procedures within our Group and with our sub-contractors*

Although our overall safety management system is maintained by our safety department, the proper implementation of this system relies on our site management teams and our sub-contractors' representatives responsible for overseeing each individual project. Our safety manual therefore sets out the communication channels at various corporate levels as well as between our staff and representatives of our sub-contractors. Additionally, we generally request our sub-contractor's representative to be one of the safety supervisors with relevant safety supervisor training and at least two years of experience in safety supervision. Our sub-contractors are required to report to us any accident or dangerous occurrences involving their employees or their sub-contractors in relation to the project. Our control strategy for sub-contractors involves a requirement that our sub-contractors ensure that their own sub-contractors are fully aware of our workplace safety policy and their sub-contractors take on similar responsibilities as those imposed on our sub-contractors.

To ensure that all relevant staff are aware of our work-place safety policy, our safety manual clearly sets out the responsibilities of the various parties in our Group as well as third parties like sub-contractors. For example, during the project implementation stage, our safety officer for the project will conduct safety drills, tool-box usage talks and training in relation to our in-house safety rules for our sub-contractors' employees at regular intervals or wherever is required.

### *External safety audit*

In accordance with relevant regulations in Hong Kong, we will engage an external auditor generally around every six months to perform an external safety audit and perform an inspection of required project sites. This safety audit will examine our compliance with our safety plan, the statutory requirements and contractual requirements as well as physical condition of our sites. For example, during an external safety audit in April 2014 for a project in Hong Kong, the registered safety auditor (the “**Safety Auditor**”) found no big deviations in our safety management system and based on our understanding, this report was submitted to the Labour Department of Hong Kong for review. The Safety Auditor made certain recommendations including that the responsibilities on health and safety matters for the senior foremen should be better documented as well as certain physical observations on site (e.g. proper access and closed plank should be provided on bamboo scaffold when work commences). After the follow-up review, we completed the recommended actions in between April and May 2014 and submitted a confirmation of adoption of such recommendations to the Labour Department of Hong Kong as required.

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### Procedure for handling employee injuries and accidents at work

Injuries are common in the building industry due to the potentially hazardous environment (working from high or confined spaces) and nature of works and we therefore may be subject to claims from employees for work-related injuries from time to time. Our administrative department is responsible for recording details of the claim and handling claims for accidents and injuries from our site staff. Personnel from this department is also responsible for liaising with the relevant insurance company, the claimant and in case of more serious claims as considered appropriate by our management, obtaining advice from our external legal adviser. To ensure proper recording and handling of such claims, we follow this general procedure for dealings with such claims:

<b>Steps</b>	<b>Action</b>
<b><i>Step 1: Fact findings and follow-up actions</i></b>	<p>Our safety officer on the site will investigate the incident and conduct necessary fact finding. He will provide a report to the project manager and administrative department.</p> <p>Our site management team together with our safety officer or safety supervisor on the site will consider the necessary rectification measures for the specific instance and whether any changes needs to be made to the work-place safety policy to prevent future incidents.</p>
<b><i>Step 2: Reporting</i></b>	<p>We will send a work injury report, if it is an employee injury case, to the relevant government department in accordance with relevant laws and regulations after the incident comes to our knowledge.</p> <p>We will report to the insurance company (and where necessary include correspondences with the relevant government department) and where the claim is significant, consult external legal advisers.</p>
<b><i>Step 3: Settlement or litigation</i></b>	<p>The settlement of the incidents will be handled by representatives of the insurance company. If the representative of the insurance company does not accept the liability, the matter may be litigated.</p>

During the Track Record Period and up to the Latest Practicable Date, we settled approximately five material claims in relation to employees’ compensation with an aggregate settlement amount of approximately HK\$0.83 million. As at the Latest Practicable Date, there were 20 material claims being handled by our insurer with a majority of which we are not in a position to assess that quantum. All of these incidents occurred in Hong Kong and did not involve fatalities. For further details of litigation including the amount and insurance coverage, please refer to the paragraph headed “Litigation and claims” in this section of this document. Save for the material claims against our Group as disclosed in the paragraph headed “Litigation and claims” in this section of this document, our Directors are not aware of any material work-related accidents and injuries from employees or third parties during the Track Record Period and up to the Latest Practicable Date.

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We have taken out insurance in compliance with applicable laws and regulations with a view to providing sufficient coverage for such work-related injuries for employees and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group’s operations. For further details of our insurance policies, please refer to the paragraph headed “Insurance” in this section of this document.

### **Analysis of accident rate for building construction works**

Given the availability of industry data and because our Directors believe that there is a higher risk of injuries for building construction works in comparison to electrical and mechanical engineering works and fitting-out works and therefore, the below analysis focuses on our accident rate and accident frequency rate for building construction works in Hong Kong compared to the accident rate for the construction industry in Hong Kong during the Track Record Period<sup>Notes</sup>:

	<b>For the year ended</b>	
	<b>31 March 2013</b>	<b>31 March 2014</b>
<b><i>Hong Kong</i></b>		
Our Group’s		
- accident rate	16.3	41.1
- accident frequency rate	0.55	1.26
Accident rate in construction industry	40.8	Not Yet available

*Notes:*

- (1) The accident rates in the construction industry represent the accident rate per 1,000 workers of the construction industry in Hong Kong and is based on Occupational Safety and Health Statistics Bulletin Issue No. 14. Our Group’s accident rate is calculated as the number of accidents during the year divided by the estimated average monthly number of construction site workers in Hong Kong during the year and then multiplies the result by 1,000. The average number of construction site workers in Hong Kong includes employees of our Group and our sub-contractors.
- (2) Our Group’s accident frequency rate is calculated as the number of accidents during the year x 100,000 divided by the estimated number of man-hours worked.

During the Track Record Period and up to the Latest Practicable Date, our Group (i) did not have any materials accidents in the PRC; (ii) we did not have any fatalities in construction sites under our management and supervision; and (iii) to best of our Directors knowledge and belief, we also have not suffered from any removal, suspension, downgrading or demotion of our qualifications or licences due to accidents or breaches of work-place safety regulations.

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**Workplace safety breaches involving employees of our sub-contractors**

Despite the above work-place safety policies and measures set out above, we may not have complete control of our sub-contractors and their employees and there is a risk that they may fail to comply with our work-place policies and measures all the time as disclosed in the section headed “Risk factors — We may fail to exercise sufficient control over our employees and sub-contractors, and therefore fail to prevent accidents and breaches of law.” of this document.

During the Track Record Period and up to the Latest Practicable Date, we were involved in six cases for breaches of construction safety regulations. The nature of such breaches were all in regards to failures to take adequate or reasonable steps in relation to certain safety precautions for employees of our sub-contractors including a failure to cause them to wear suitable safety helmets while on site, prevent falling from a height of two metres or more and provide suitable and adequate safe access to and outside the part of the site in which they work. Our Directors confirm that none of these cases resulted in fatalities and all of the relevant projects which these cases related have already been completed.

As at the Latest Practicable Date, five of such cases were fully settled with the total fines paid was HK\$66,000 and there was one remaining on-going case. Although our insurance does not cover such cases, we believe such breaches are the responsibility of our sub-contractors and the relevant amounts can be recovered from our sub-contractors pursuant to the term of our contract with such sub-contractors. It is our practice generally to deduct the finer amount from relevant amounts owed to them and to impose an additional fine (either a fixed fee or as a percentage of the fine from such case) on such sub-contractors as a deterrence and to recover our administrative costs. In relation to the settled cases, we have deducted HK\$11,000 (being a fine for one of the settled cases) from the amounts owed to the relevant sub-contractor and intend to do the same for the other cases.

In relation to the one on-going case as at the Latest Practicable Date, our Directors believe that it should have more appropriately been brought against the relevant sub-contractor instead of us as the main contractor. The relevant sub-contractor has engaged a legal counsel to handle this case and provided us with a letter of confirmation that they agreed to bear all fines and expenses incurred by and associated with this case in accordance with the terms of the contract with us if we were so charged. A summary concerning this case is set out below:

**Summary of the single on-going case**

Status as at Latest Practicable Date	Summons issued on 26 November 2011 and pre-trial review is scheduled on 25 September 2014
Nature of breach	Alleged that Deson Development, as a proprietor of an industrial undertaking, failed to provide and maintain system of work for installing conduits of the burglar alarm and security system, that were, so far as was reasonably practicable, safe and without risks to health of the persons employed at the industrial undertaking, contrary to sections 6A(1) and 6A(2)(a) of the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)

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Potential maximum penalty	<p>If the court finds a breach occurred but was not committed wilfully or was committed with a reasonable excuse, the potential maximum penalty is a fine of HK\$500,000.</p> <p>If the court finds a breach was committed wilfully and without reasonable excuse, the potential maximum penalty is a fine of \$500,000 and in the case of a company, imprisonment for 6 months of its directors.</p>
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Our Directors confirm that as at the Latest Practicable Date, such claim was not made against our Directors nor senior management and our Directors believe that the chance of any of our Directors or senior management receiving the imprisonment sentence is slim even if such claim was made against them given the facts of the case and our existing work-place safety measures are evidence against breach which was willful and without reasonable excuse.

### **Independent internal control adviser’s views**

We engaged Baker Tilly Hong Kong Risk Assurance Limited (“**Baker Tilly**”) on June 2014 to perform review procedures on our key procedures, systems and controls and to assist the Sponsor in assessing the adequacy of the internal controls of our Group for amongst others, compliance with relevant legal and regulatory requirements. Baker Tilly is in the business of, amongst others, providing risk management, internal control and corporate governance advisory services to listed companies and listing candidates in Hong Kong.

Baker Tilly has conducted two rounds of reviews of our internal control system from 14th July 2014 to 8th August 2014 and the 20th August 2014 and 2nd September 2014. It is made aware of the work-place safety incidents above and in the course of its review, it (i) reviewed the safety procedures, systems and controls in place including those set out in the safety manual; and (ii) performed a construction site visit to verify the implementation of the safety procedures, systems and controls. Based on the results of its work performed, Baker Tilly is of the view that the Group’s existing procedures, systems and controls in regard to industrial safety are adequate and effective for ensuring compliance with the applicable construction safety regulations.

### **Directors’ and the Sponsor’s views on internal control measures**

Having considered the risks of such claims in the industry, the background leading to the specific incidents and particularly the responsibilities of the sub-contractors, the status of the cases and the counsel’s opinion concerning the outstanding case, Baker Tilly’s views and the enhanced internal control measures adopted by the Group as set out above, our Directors are of the view, and the Sponsor concurs, that (i) the various internal control measures adopted by our Group are adequate and effective; (ii) the incidents identified do not materially affect the suitability of our Directors to act as directors under Rules 5.01 and 5.02 of the GEM Listing Rules; and (iii) the incidents identified do not materially affect the suitability for the Company’s listing under Rule 11.06 of the GEM Listing Rules.

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### **ENVIRONMENTAL PROTECTION AND COMPLIANCE**

#### **Compliance with environmental laws and regulations**

We are environmentally aware and are committed to our corporate responsibility to our society. Our safety and environmental department are responsible for ensuring environmental compliance and protection measures are properly implemented for our projects.

Besides our own corporate responsibility, our Group is required to comply with the laws and regulations in relation to environmental protection in Hong Kong (including Air Pollution Control Ordinance, Noise Control Ordinance, Water Pollution Control Ordinance, Waste Disposal Ordinance and Environmental Impact Assessment Ordinance) and in the PRC (including Environmental Protection Law of the PRC《中華人民共和國環境保護法》, Law of the PRC on Appraising of Environment Impacts《中華人民共和國環境影響評價法》and Regulations of Environment Protection in Construction Projects《建設項目環境保護管理條例》) For further details, please refer to the section headed “Regulatory overview” of this document. Possible breach of the aforesaid environmental laws and regulations may lead to penalty or fine by the relevant government authorities or even termination of works. Given our substantial experience in the industry and our established operation workflow which includes preliminary site visits by staff to determine possibly environmental compliance issues, we have been able to address such environmental compliance issues. During the Track Record Period and as at the Latest Practicable Date, to the best knowledge of our Directors, we were in compliance with applicable environmental laws and regulations in all material respects.

During the Track Record Period, our cost of compliance with applicable environmental laws and regulations were approximately HK\$0.10 million and approximately HK\$0.51 million for the years ended 31 March 2013 and 2014 respectively. This cost mainly involves construction waste disposal. We estimate that our annual cost of compliance for the year ended 31 March 2015 will be less than HK\$1 million but will generally depend on our level of on-going projects.

### **INSURANCE**

We generally have insurance over property, public liability insurance and good-in-transit insurance. In relation to our projects and in line with industry practice, when we serve as main contractor, we will purchase employees’ compensation insurance, contractor’s all risks insurance and construction liability insurance for the entire project. The insurance policy generally covers the entire contract period, including the defect liability period following completion of the project. When we are engaged as a sub-contractor, we generally obtain insurance cover from the main contractor. Taking into account the industry practice and the insurances purchased by our Group as stated above, our Directors believe that we have obtained adequate insurance coverage for the operation of our business.

During the Track Record Period and up to the Latest Practicable Date, the employees’ compensation insurance policies provide for a maximum limit of liability of up to HK\$200 million per event.

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For the years ended 31 March 2013 and 2014, our total insurances premiums were approximately HK\$3.1 million and approximately HK\$4.5 million respectively.

### PROPERTIES

As at Latest Practicable Date, we have our owned properties with a total floor area of approximately 7,854 sq.ft.

#### Owned properties

As at Latest Practicable Date, we own the following properties:

Address	Floor area <i>Approx.</i> <i>sq.ft.</i>	Use of the property
(i) Unit 2—31 on Level 11 and Car Parking Space No. B37 on Basement 2, Block D, Fu Hua Mansion, No. 8 Beida Street, Chaoyangmen, Dongcheng District, Beijing, the PRC	2,882	Held for investment purposes. Currently leased to an Independent Third Party.
(ii) Flat A on 2nd Floor, Cheung Yick Industrial Building, No. 12 On Yip Street, Chai Wan, Hong Kong	4,972	Our Group’s own use as storage area.

#### Disposed property

During the Track Record Period and up to the Latest Practicable Date, we owned a property located at 11th Floor, Nanyang Plaza, No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong, which is currently of head office of our Group and the Remaining DDIHL Group. To focus on our Group’s core business, we intend to sell the aforesaid property to a member of the Remaining DDIHL Group prior to Listing for the total consideration of approximately HK\$126.6 million. The consideration had been determined in accordance with the net book value of the property. Accordingly, we do not expect to record a gain or loss from the aforesaid disposal.

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### Leased properties

As at the Latest Practicable Date, we have the following leased properties:

Location	Floor area <i>Approx.</i> <i>sq.ft.</i>	Use of the property	Length of lease
(i) Kwun Tong, Kowloon, Hong Kong	2,460	Warehouse	2 years expiring 14 February 2015
(ii) Kwun Tong, Kowloon, Hong Kong	9,500	Head office	Commencing on the Listing Date and expiring on 31 March 2017
(iii) Beijing, the PRC	4,721	Office	1 year and 1 month expiring 31 December 2014
(iv) Sichuan Province, the PRC	912	Office	2 years expiring 22 May 2015
(v) Shanghai, the PRC	753	Office	Commencing on the Listing Date and expiring on 31 March 2017

Save for items (ii) and (v) above, which is leased from subsidiaries of our Controlling Shareholder and the details of which are set out in the section headed “Connected transactions” of this document, all the above properties are leased from Independent Third Parties.

### ***Building order over leased warehouse premise***

There is a building order issued by the Building Authority on 11 January 2012 over the entire building (including leased property (i) above) and addressed to the incorporated owners of the building. Based on public records and our due diligence, we understand the building order requests the rectification of dilapidation/defect on the first floor canopy which is on the external wall. We confirm it was not due to any fault of our Group and as a tenant on the second floor, such rectification works are outside our control. We are advised by our Hong Kong Property Legal Advisers that (i) the landlord as the registered owner of such property, and in common with the other owners of the building should be responsible for meeting the costs of any work to comply with such building order; and (ii) the existence of such building order does not affect the terms of our tenancy over the leased property, as the obligations imposed under the building order generally constitute a financial

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obligation on the landlord and the other owners. As at the Latest Practicable, we are not aware of the rectification status concerning the building order even after requesting such information from the landlord but given our Hong Kong Property Legal Advisers views above in relation to the possible impact of the building order, we intend to continue leasing the premises.

### ***Non-registration of a lease over Beijing office***

In relation to the lease for our Beijing office (leased property (iii) above), our landlord has relevant title certificates but has failed to register the lease with the relevant PRC governmental authorities. Despite our request for registration, our landlord has not made such registration and we are unable to complete the submission without their assistance. We are advised by our PRC Legal Advisers that, (i) we, as the lessee, may be imposed of a fine between RMB1,000 and RMB10,000 according to the laws and regulations; and (ii) that the lack of registration of the leased properties will not affect the validity and enforceability of the lease agreement. As at the Latest Practicable Date, we are not aware of any notice of fine by the government authority concerning the above non-registration and given the advice of our PRC Legal Advisers, we intend to continue leasing such premise.

### ***Impact of defects***

Given the possible impact on the Group based on the above defects as advised by our Hong Kong Property Legal Advisers and PRC Legal Advisers, we believe the risk of fines and/or the impact will be minimal. In relation to the premises for warehouse use, we note that besides the leased premises, we also own a warehouse with sufficient capacity. As the use for aforesaid two premises were not of a revenue generating nature, our Directors believe this property is not crucial to our operations. Furthermore, as our Directors believe that (i) rental rate under the lease agreements for the aforesaid premises are comparable to the rental rate for leased premises with similar size and in same vicinity but without defects; and (ii) there are alternative and suitable sites, if we are forced to relocate, the estimated costs and expenses for such relocation will not be material.

### **Material property analysis**

As at 31 March 2014, no single property interest forming part of our Group’s property activities had a carrying amount of 1% or more and 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 document 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 Ordinance (Miscellaneous Provisions) in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance (Miscellaneous Provisions), with respect to the inclusion of a property valuation report in this document.

## **INTELLECTUAL PROPERTIES**

### **Domain name**

We are the registrant of the domain name [www.deson-c.com](http://www.deson-c.com).

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**Trademarks**

As at the Latest Practicable Date, we are applying for registration of our trademarks in Hong Kong and the PRC. Please refer to the section headed “Statutory and general information — B. Further information about the business of our Company- 2. Summary of intellectual property rights of our Group- (a) Trademarks” in Appendix IV of this document for further details.

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

**EMPLOYEES, MANAGEMENT AND STAFF TRAINING**

**Employees and management**

We had a total of 108, 120 and 139 full-time employees in Hong Kong and the PRC as at 31 March 2013, 31 March 2014 and as at the Latest Practicable Date respectively. The following table sets out a breakdown of our employees by functions in Hong Kong and the PRC:

Function	As at 31 March 2013		As at 31 March 2014		As at the Latest Practicable Date	
	HK	PRC	HK	PRC	HK	PRC
Senior management	6	8	6	8	8	7
Project management, senior safety personnel and Site staff	35	17	43	16	56	15
Administration, accounting and finance	16	12	16	13	16	14
Design engineering	0	14	0	18	2	21
<b>Sub-total</b>	<b>57</b>	<b>51</b>	<b>65</b>	<b>55</b>	<b>82</b>	<b>57</b>
<b>Total:</b>	<b>108</b>		<b>120</b>		<b>139</b>	

We generally sub-contract our works to sub-contractors and therefore do not necessarily need to retain a large number of permanent site staff for our projects.

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### **Strong relationship with employees**

Our Directors believe that we maintain a strong working relationship with our employees. We had not experienced any significant labour disputes with our employees during the Track Record Period. None of our employees are members of trade unions.

During the Track Record Period, our average monthly staff turnover rates were approximately 0.15% and approximately 0.57% for the years ended 31 March 2013 and 2014 respectively, which our Directors believe are relatively low.

### **Staff training**

We believe that continuing education and training for our staff is a part of maintain the service quality of our Group. As part of the induction of new employees, they must familiarise themselves with our safety policy, quality policy, quality manual, quality operating procedure, technical note and general organisation. We also encourage relevant personnel to attend training courses to keep up to date with latest developments and best practices in the industry or develop their management and decision-making abilities to enhance their work performance.

### **INDUSTRY ASSOCIATIONS**

During our long history, we have been a member of various industry associations such as being a honorary life director of the Hong Kong Electrical Contractors' Association and regular member of the Hong Kong Construction Association. We believe our membership in such associations allows us to keep track of industry news, trends and best practices.

### **MAJOR LICENCES, PERMITS AND QUALIFICATIONS**

#### **Maintenance and renewal**

To ensure that our licenses, permits and qualifications are valid, we maintain a list recording their relevant information including their expiry dates. Our administrative department is generally responsible for making relevant submissions prior to expiry and checking relevant requirements from time to time to ensure that we maintain our licenses, permits and qualifications. If there are material changes in such requirements, our administrative staff are also responsible for informing our senior management in case where substantial steps are required to be undertaken. As confirmed by our Directors, our Group has obtained all material licences, permits and approvals required for carrying on its business activities during the Track Record Period and up to the Latest Practicable Date.

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The following table sets forth details of some of our major licenses, permits and qualifications:

<b>Name</b>	<b>Granting authority</b>	<b>Holder</b>	<b>Date of grant of current version</b>	<b>Expiry date</b>
<b>A. Hong Kong</b>				
Registered General Building Contractor	Buildings Department	Deson Development	24/06/2014	22/09/2017
Registered Specialist Contractor (foundation works category)	Buildings Department	Deson Development	02/04/2012	25/04/2015
Registered Minor Works Contractor (Class I, II and III)	Buildings Department	Deson Engineering	11/04/2014	11/04/2017
Registered Electrical Contractor	Electrical and Mechanical Services Department	Kenworth Engineering	14/03/2013	31/05/2016
Registered Fire Service Installation Contractor (Class 1, 2 & 3)	Fire Services Department	Kenworth Engineering	10/03/2006	N/A
Registered Minor Works Contractors (Type E works relating to structures for amenities) (Class III)	Buildings Department	Kenworth Engineering	13/12/2011	11/11/2014 (Note)
Registered Specialist Contractor (ventilation works category)	Buildings Department	Kenworth Engineering	06/11/2012	01/01/2016
Approved contractors for public works — Building category (Group C) (Confirmed)	Works Branch Development Bureau	Deson Development	25/04/2006	N/A
Approved Suppliers of Materials and Specialist Contractors for Public Works - Turn-key Interior Design and Fitting-out Works (Group II)	Works Branch Development Bureau	Deson Development	12/05/2004	N/A
Contractors for Fitting-out/ Renovation Works	Urban Renewal Authority	Deson Development	2/08/2010	N/A
Contractors for Repair/Maintenance Works	Urban Renewal Authority	Deson Development	2/08/2010	N/A
Approved Suppliers of Materials and Specialist Contractors for Public Works - Air-Conditioning Installation (Group II) - Fire Services Installation (Group II) - Electrical Installation (Group III)	Works Branch Development Bureau	Kenworth Engineering	9/12/1983	N/A

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Name	Granting authority	Holder	Date of grant of current version	Expiry date
Grade I Professional Contractor of Construction and Renovation Works* (建築裝修裝飾工程專業承包壹級)	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	Beijing Chang-de	08/06/2011	08/06/2016
Grade A Professional Interior Design* (建築裝飾工程設計專項甲級)	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	Beijing Chang-de	20/01/2014	20/01/2019
Grade II Professional Construction, Renovation and Fitting-out Contractor Certificate* (建築裝修裝飾工程專業承包貳級)	Shanghai Urban Construction and Communications Commission (上海市城鄉建設和交通委員會)	Shanghai Deson	21/07/2014	21/07/2015

*Note:* As at the Latest Practicable Date, we are already in the process of renewing this.

We have applied to be registered as a Specialist Contractor (Site Formation Works Category) in March 2014 with the Buildings Department.

### **Qualifications for projects**

For certain types of works, the tender issued by customers in the public sector may require the main contractor and in certain cases also the sub-contractor to have specific licenses, permits and qualifications for that type of work such as being on a certain List of Approved Suppliers of Materials and Specialist Contractors for Public Works or List of Approved Contractors for Public Works.

Customers from the private sector may also have such requirement. However with such customer’s consent and based on the sub-contracting arrangements, this qualification may be satisfied by the main contractor or other sub-contractors involved in the project.

### **LITIGATION AND CLAIMS**

#### **Overview**

According to the Industry Report, accidents are not uncommon in our industry. During the Track Record Period and as at the Latest Practicable Date, in the ordinary course of our Group’s business,

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there has been or is involved in a number of employees' compensation claims against our Group, either in the capacity as main contractor or sub-contractor, mostly arisen due to personal injuries suffered by employees of our sub-contractors in accidents during the course of their employment for our Group's projects. None of the claims are related to any disputes with our customers. Our Directors are of the view that occurrence of personal injuries is not uncommon in the industry. All of the outstanding claims are being handled by our Group's insurance companies. Our Directors believe that such claims are well covered by insurance and would not result in any material impact on the financial position or results and operations of our Group.

During the Track Record Period and up to the Latest Practicable Date, there were 31 incidents which gave rise or may give rise to employees' compensation claims. As at the Latest Practicable Date, among the claims which arose from the 31 incidents, five employees' compensation claims were settled and 20 employees' compensation claims were outstanding. There were six potential employee's compensation claims from the incidents. All those 31 incidents have the possibility of turning into personal injuries claims against us under common law.

Among those, five arose out of injuries suffered as a result of slipping on grounds, five arose out of falling from height, four arose out of improper manual handling, ten arose out of careless use of hand tools and equipment and the remaining seven arose out of other causes.

To the best knowledge of our Directors, all injured persons have suffered insignificant bodily injuries and, all claims have no material financial and operation impact on our Group. The time limit for an injured person to commence legal proceedings for an employee's compensation claim is two years from the date of the relevant incidents, while the time limit for a personal injuries claims against us under common law is three years from the date of the relevant incidents.

**I. Employees' compensation claims against our Group settled (whether by way of court judgment or award or settlement) during the Track Record Period and up to the Latest Practicable Date**

There are five settled employees' compensation claims against our Group during the Track Record Period and as at the Latest Practicable Date, of which the total amount settled were approximately HK\$0.83 million and was fully covered by insurance.

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**II. Outstanding employees’ compensation claims against our Group as at the Latest Practicable Date**

The table below summarises the 20 outstanding employees’ compensation claims against our Group as at the Latest Practicable Date.

<b>Category of claims</b>	<b>Number of claims</b>	<b>Covered by insurance or recovered from sub-contractors</b>
Employees’ compensation claims for which the injured persons have filed Form 2 but are still on sick leave for their injuries or their cases are under investigation ( <i>Note</i> )	19	All the claims are covered by insurance
Employees’ compensation claims for which the injured persons have commenced legal proceedings against our Group	one	All the claims are covered by insurance

*Note:* According to section 15 of the Employees’ Compensation Ordinance, an employer must notify the Commissioner for Labour of any accident by submitting a Form 2. As such injured persons have not yet filed claims with particulars and the claims, when filed, will be handled by solicitors appointed by the insurers, we are not in the position to assess the likely quantum of such potential claims.

All the above 20 outstanding employee compensation claims were in relation to employees of our sub-contractors, our Group was joined as a defendant in the capacity as a main contractor or a nominate sub-contractor.

**III. Potential employees’ compensation and personal injuries claims against our Group as at the Latest Practicable Date**

Among the 31 incidents, there were six incidents where our Group was involved in our capacity as a sub-contractor of which work was carried out through our sub-contractors. Those injured persons were employees of our sub-contractors and have filed their employees’ compensation claims against the relevant main contractors in the projects. As at the Latest Practicable Date, no employees’ compensation claims has been commenced against our Group. As such, such six incidents have the possibility of turning into employees’ compensation claims against our Group.

As at the Latest Practicable Date, among the 31 incidents, the relevant personal injuries claims against us under the common law had not been commenced and therefore those incidents have the possibility of turning into personal injuries claims under common law against our Group.

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All of the 31 incidents are covered by insurance either maintained by our Group or our main contractors and are handled by insurers. As at the Latest Practicable Date, notices of the incidents have been given to the insurers and based on the information provided by the insurers, the insurers estimated that the amount payable to the plaintiff under the outstanding claim for which the injured person have commenced legal proceedings would be approximately HK\$0.75 million. Save as disclosed above, we are not in the position to assess the likely quantum of other outstanding claims since we do not have access to information relating to the claims involved. For the potential claims, since the injured persons have not yet filed claims with particulars and the claims, when filed, will be handled by solicitors appointed by the insurers of our Group or insurers of our main contractors, we are not in a position to assess the likely quantum of such potential claims.

During the Track Record Period and up to the Latest Practicable Date, our Group did not incur legal expenses since legal expenses associated with the employees’ compensation claims are covered by our Group’s insurance policies or recovered from our sub-contractors. Other than disclosed above, there was one incident where the injured person was an employee of the landlord of a site in which our Group was the sub-contractor. As at the Latest Practicable Date, no claims have been filed against our Group and in any event, any claims are covered by insurance maintained by our main contractor. Such incident has the possibility of turning into a claim for breach of duties by our Group as the co-occupier of the site. As at the Latest Practicable Date, no legal expenses have been incurred such incident.

Save as disclosed above and in the paragraph headed “Workplace safety” of this section, our Directors confirm that there are no other outstanding, settled, pending or threatened litigation, proceedings or claims which are material as at the Latest Practicable Date, or the outcome of which we believe might, individually or taken as a whole materially and adversely affect our business, operations or financial condition.

### **REGULATORY COMPLIANCE**

Save as disclosed in the paragraph headed “Business - Workplace safety - Workplace safety breaches involving employees of our sub-contractors” of this section, our Directors confirmed that our Group did not have any non-compliance incidents which are either material impact non-compliance or a systematic non-compliance during the Track Record Period and up to the Latest Practicable Date.

### **COMPETITION**

Please refer to the section headed “Industry overview” of this document for further details.

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*You should read the following discussion and analysis of our financial conditions and results of operations in conjunction with our combined financial statements included in the accountants’ report, which has been prepared in accordance with HKFRSs, as set out in Appendix I to this document, and the unaudited pro forma financial information included in Appendix II to this document, in each case together with the accompanying notes.*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed “Risk factors” and elsewhere in this document.*

### **OVERVIEW**

We are principally engaged as a contractor in the building industry operating in Hong Kong and the PRC. We serve our clients through our main office in Hong Kong and the PRC offices in Beijing and Shanghai. We may also provide limited ad-hoc services to our customers in other geographic markets from time to time where feasible. For the years ended 31 March 2013 and 2014, the revenues derived from Hong Kong were approximately HK\$391.2 million and approximately HK\$644.8 million respectively, representing approximately 72.4% and approximately 78.1% of our total revenue, whilst our revenue derived from the PRC were approximately HK\$149.1 million and approximately HK\$158.3 million respectively, representing approximately 27.6% and approximately 19.2% of our total revenue. As a contractor, we provide one-stop comprehensive services with the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering works; and (c) alterations, addition, renovation, refurbishment and fitting-out works.

### **BASIS OF PRESENTATION**

The combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period, and the combined statements of financial position of the Group as at 31 March 2013 and 2014, prepared on the basis of presentation set out in note 2.1 of Section II as included in the accountants’ report in Appendix I to this document. Our Directors have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with the HKFRSs, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. The Underlying Financial Statements for the years ended 31 March 2013 and 2014 were audited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising our Group subsequent to the end of the Track Record Period. The companies now comprising our Group were under the common control of DDIHL before and after the Reorganisation.

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Accordingly, the financial statements has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

For the purpose of preparing the financial statements, the related financial information of businesses and operations historically not associated with the Construction and Engineering Contracting Business of the Group has been excluded from the financial statements throughout the Track Record Period as such businesses and operations are distinct and identifiable businesses, which operated autonomously and were retained by the Remaining DDIHL Group pursuant to the Reorganisation.

The combined statements of profit or loss, combined statements of other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of Construction and Engineering Contracting Business from the earliest date presented or since the date when the subsidiaries first came under the common control of the controlling shareholder, where this is a shorter period. The combined statements of financial position of the Group as at 31 March 2013 and 2014 have been prepared to present the assets and liabilities of the Construction Business using the existing book values from the controlling shareholder’s perspective.

Equity interests in companies now comprising the Group held by parties other than the Controlling Shareholder and changes therein prior to the Reorganisation are presented as non-controlling interests in equity. All intra-group transactions and balances have been eliminated on combination.

The financial statements have been prepared under the historical cost convention, except for leasehold land and buildings classified as property, plant and equipment, and investment properties which have been measured at fair value, and is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### **FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

#### **Economic condition of Hong Kong and the PRC**

Our business depends on the economic and market condition of Hong Kong and the PRC. For the years ended 31 March 2013 and 2014, the revenues derived from Hong Kong were approximately HK\$391.2 million and approximately HK\$644.8 million respectively, representing approximately 72.4% and approximately 78.1% of our total revenue, whilst our revenue derived from the PRC were approximately HK\$149.1 million and approximately HK\$158.3 million respectively, representing approximately 27.6% and approximately 19.2% of our total revenue. Any adverse change in the economic condition in Hong Kong and the PRC, such as economic downturn or credit crisis, may affect our customers leading to reduction in the demand for our service and/or affecting the ability to settle our outstanding bills, and hence affect our profit.

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### **Competition**

Our revenues were mainly derived from some key customers during the Track Record Period. During the Track Record Period, contracts with all of our top five customers were obtained through competitive tendering. Our success rates for tender were approximately 31% and approximately 28% for the years ended 31 March 2013 and 2014. For the years ended 31 March 2013 and 2014, our top five customers accounted for approximately 52.8% and approximately 54.4% of our total revenue respectively while our largest customer accounted for approximately 13.6% and approximately 15.0% of the our total revenue respectively. There is no guarantee that in the future, we will be eligible for such tenders or succeed in maintaining comparable tender success rates.

Due to the large number of competitors, we face significant downward pricing pressure thereby reducing our profit margins. If we cannot adapt effectively to market conditions and customer preferences or otherwise fail to provide a competitive bid as compared to our competitors, our services may not be attractive to customers and our profitability may be materially and adversely affected. Our competitors may also adopt aggressive pricing policies or develop relationships with our customers in a manner that could significantly harm our ability to secure contracts.

### **Requisite licenses, permits or qualifications**

As at the Latest Practicable Date, we have a variety of licenses and permits for various types of works in Hong Kong and the PRC and are on various lists of approved contractors to perform public works in Hong Kong including those detailed in the section headed “Business — Major licenses, permits and qualifications” of this document. Some of these major licenses, permits or qualifications have an expiry date, the earliest expiry date is for Kenworth Engineering’s qualification as a Registered Minor Work Contractor (Type E works relating to structures for amenities) which will expire on 11 November 2014. There is no assurance that we can renew the aforesaid in a timely manner or if we try to renew them, we will succeed. If we are unable to renew or otherwise maintain our licenses, permits or qualifications, we may not be able to obtain certain new projects and our financial position and prospects would be materially and adversely affected.

## **CRITICAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 2.4 to the accountants’ report included in Appendix I to this document. In the application of the Group’s accounting policies, we are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following bases:

- (a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) management fee income, when the services are rendered.

### **Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of sub-contracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the

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temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the property revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis or reducing balance basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	15% on the reducing balance basis
Office equipment	15% on the reducing balance basis
Tools and equipment	15% on the reducing balance basis
Motor vehicles	15% on the reducing balance basis

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Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### *Investment properties*

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

### **Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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### **Judgements**

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Operating lease commitments — Group as lessor*

The Group has entered into commercial property leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Estimates regarding the realisability of deferred tax assets*

Estimating the amount for deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years’ taxable income and assessing the ability to utilise tax benefits through future taxable profits. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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*Useful lives and impairment of property, plant and equipment*

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

*Impairment of accounts receivable*

Impairment of accounts receivable is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

**RESULTS OF OPERATIONS**

The tables below sets out the combined statements of profit or loss and other comprehensive income of our Group for the Track Record Period:

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>REVENUE</b>	540,226	825,379
Cost of sales	(504,142)	(778,333)
Gross profit	36,084	47,046
Other income	8,822	12,287
Fair value gain on investment properties	1,353	635
Administrative expenses	(35,620)	(39,468)
Other operating expenses, net	(149)	(118)
Finance costs	(56)	(22)
<b>PROFIT BEFORE TAX</b>	10,434	20,360
Income tax expense	(3,160)	(4,408)
<b>PROFIT FOR THE YEAR</b>	<u>7,274</u>	<u>15,952</u>
Attributable to:		
Owners of the Company	7,620	15,946
Non-controlling interests	(346)	6
	<u>7,274</u>	<u>15,952</u>

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	For the year ended	
	31 March	
	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>267</u>	<u>(55)</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Surplus on revaluation of leasehold land and buildings	47,292	10,944
Income tax effect	<u>(7,803)</u>	<u>(1,806)</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>39,489</u>	<u>9,138</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u>39,756</u>	<u>9,083</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	47,030	25,035
Attributable to:		
Owners of the Company	47,345	25,029
Non-controlling interests	<u>(315)</u>	<u>6</u>
	<u>47,030</u>	<u>25,035</u>

### DISCUSSION ON MAJOR ITEMS OF THE COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

We are principally engaged as a contractor in the building industry operating in Hong Kong and the PRC. Our revenue for the Track Record Period was generated from the following three major types of services: (a) building construction works; (b) electrical and mechanical engineering works; and (c) alterations, addition, renovation, refurbishment and fitting-out works. The following table sets out a breakdown of our total revenue during the Track Record Period according to our three major types of services:

	For the year ended 31 March			
	2013		2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Building construction works	135,982	25.2%	235,084	28.5%
Electrical and mechanical engineering works	160,544	29.7%	270,691	32.8%
Fitting-out works	<u>243,700</u>	<u>45.1%</u>	<u>319,604</u>	<u>38.7%</u>
<b>Total</b>	<u>540,226</u>	<u>100.0%</u>	<u>825,379</u>	<u>100.0%</u>

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For the year ended 31 March 2014, our revenue was approximately HK\$825.4 million, representing an increase of approximately HK\$285.2 million or approximately 52.8% from approximately HK\$540.2 million for the year ended 31 March 2013. For the year ended 31 March 2014, we completed more contracts with a higher aggregate contract sum comparing to that of the corresponding period.

In building construction works, our main responsibilities consist of (i) overall building construction including foundation works, addition and alteration works and project management; (ii) supply or procure the supply of materials and where necessary, engagement of sub-contractors; (iii) ensure the works are in accordance with the contract specification and customer’s requirements; and (iv) liaise with various professional parties to ensure the project is on schedule. Our revenue from building construction works was approximately 28.5% of our total revenue for the year ended 31 March 2014.

As a main contractor or a sub-contractor for electrical and mechanical engineering works, we involve in electrical services, air-conditioning, heating and ventilation engineering services and fire services. Our revenue from electrical and mechanical engineering works was approximately 32.8% of our total revenue for the year ended 31 March 2014.

As a main contractor or a sub-contractor for alterations, addition, renovation, refurbishment and fitting-out works in Hong Kong and the PRC, our main responsibilities consist of construction works involving (i) interior decorative and modification, removal or installation of furniture, fixtures and equipment works; (ii) minor works; (iii) changes in external facade works; and (iv) repair and maintenance works. Our revenue from fitting-out works was approximately 38.7% of our total revenue for the year ended 31 March 2014.

**Cost of sales**

Cost of sales consists principally of (i) sub-contracting fees paid to our sub-contractors for completed projects or progress payments; (ii) raw material costs such as concrete, steel reinforcement, cables and switch boards; and (iii) administration fee such as direct labour costs, insurance costs and maintenance costs. Set out below is a breakdown of our cost of sales during the Track Record Period:

	<b>For the year ended 31 March</b>			
	<b>2013</b>		<b>2014</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Sub-contracting fees	484,365	96.1%	694,686	89.3%
Raw material costs	6,420	1.3%	65,590	8.4%
Administration fees	<u>13,357</u>	<u>2.6%</u>	<u>18,057</u>	<u>2.3%</u>
	<u><u>504,142</u></u>	<u><u>100.0%</u></u>	<u><u>778,333</u></u>	<u><u>100.0%</u></u>

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**Hypothetical sensitivity analysis**

*Hypothetical sensitivity analysis on salaries, wages and other benefits*

A hypothetical sensitivity analysis on the approximate impact of 5% and 10% changes in employee benefit expense less amount capitalised with other variables remain constant, on our profit after tax and equity during the Track Record Period is illustrated below:

**Increase (decrease) in profit after tax and equity**

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HKD'000</i>	<i>HKD'000</i>
Employee benefit expense (Less: Amount capitalised)		
Increase 5%	(762.2)	(935.8)
Decrease 5%	762.2	935.8
Increase 10%	(1,524.4)	(1,871.7)
Decrease 10%	1,524.4	1,871.7

*Hypothetical sensitivity analysis on gross profit margin*

A hypothetical sensitivity analysis on the approximate impact of 0.25% and 0.5% changes in our gross profit margin with other variables remain constant, on our profit after tax and equity during the Track Record Period is illustrated below:

**Increase (decrease) in profit after tax and equity**

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HKD'000</i>	<i>HKD'000</i>
Gross profit margin		
Decrease 0.25%	(941.5)	(1,616.7)
Increase 0.25%	941.5	1,616.7
Decrease 0.5%	(1,883.1)	(3,233.4)
Increase 0.5%	1,883.1	3,233.4

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### Gross profit and gross profit margin

Set out below is a breakdown of our gross profit and gross profit margin by our three major types of services during the Track Record Period:

	<b>For the year ended 31 March</b>			
	<b>2013</b>		<b>2014</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>
Building construction works	7,576	5.6%	10,435	4.4%
Electrical and mechanical engineering works	10,147	6.3%	11,125	4.1%
Fitting-out works	<u>18,361</u>	7.5%	<u>25,486</u>	8.0%
	<u>36,084</u>	6.7%	<u>47,046</u>	5.7%

Our gross profit was approximately HK\$36.1 million and approximately HK\$47.0 million respectively, resulting in gross profit margin of approximately 6.7% and approximately 5.7% respectively for the years ended 31 March 2013 and 2014. The decrease in gross profit margin was mainly due to the increase in sub-contracting fee paid for the year ended 31 March 2014. The increase in sub-contracting fee reflected the increase in labour cost and material cost incurred by sub-contractors during the period.

### Analysis on revenue and gross profit margin by major types of services

#### *Building construction works*

For the year ended 31 March 2014, our revenue from building construction works was approximately HK\$235.1 million, representing an increase of approximately HK\$99.1 million or approximately 72.9% from approximately HK\$136.0 million for the year ended 31 March 2013. For the same period, our gross profit margin from building construction works decreased from approximately 5.6% to approximately 4.4%.

The increase in our revenue from building construction works was mainly attributable to the increase in revenue from our three major projects, which included a project amounted to: (i) approximately HK\$52.9 million for an alteration and additions works; (ii) approximately HK\$40.7 million for a residential project; and (iii) approximately HK\$29.4 million for being the main contractor for re-development of a 21-storey industrial building respectively for the year ended 31 March 2014. The decrease in our gross profit margin from building construction works was mainly attributable to the increase in sub-contracting fee and work progress.

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Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of work done performed by us and certified by relevant professionals. For the projects with completion rate lower than 30%, no attributable gross profit can be recognised. As some of our large projects was still in early stage as at 31 March 2014, we only recorded the respective revenue and costs of sales in the same amount. As a result, our gross profit margin from building construction works decreased accordingly.

### *Electrical and mechanical engineering works*

For the year ended 31 March 2014, our revenue from electrical and mechanical engineering works was approximately HK\$270.7 million, representing an increase of approximately HK\$110.1 million or approximately 68.6% from approximately HK\$160.5 million for the year ended 31 March 2013. For the same period, our gross profit margin from electrical and mechanical engineering works decreased from approximately 6.3% to approximately 4.1%.

The increase in our revenue from electrical and mechanical engineering works was mainly attributable to (i) a new electrical and mechanical engineering works project in a university in Sai Kung, which contribute revenue of approximately HK\$55.1 million; and (ii) increased in percentage of completion in other projects.

The decrease in our gross profit margin from electrical and mechanical engineering works was mainly attributable to final settlement of some projects for the year ended 31 March 2013. Over-estimated costs of sales of those projects were reversed of approximately HK\$2.0 million after this final settlement for the year ended 31 March 2013 which boost the gross profit margin of that period.

### *Fitting-out works*

For the year ended 31 March 2014, our revenue from fitting-out works was approximately HK\$319.6 million, representing an increase of approximately HK\$75.9 million or approximately 31.1% from approximately HK\$243.7 million for the year ended 31 March 2013. For the same period, our gross profit margin from fitting-out works increased from approximately 7.5% to approximately 8.0%.

The increase in our revenue from fitting-out works was mainly attributable to (i) increased revenue from two fitting-out works projects for new shops of luxury brands in Hong Kong of approximately HK\$32.8 million; (ii) ad-hoc services provided in Macau of approximately HK\$22.2 million; and (iii) revenue from our subsidiaries in the PRC of approximately HK\$9.3 million more fitting-out works projects in the PRC and some fitting-out works projects for new shops projects of luxury brands in the PRC.

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The increase in our gross profit margin from fitting-out works was mainly attributable to fitting out work projects for new shops of luxury brands we handled for the year ended 31 March 2014. Based on our proven track records, we are able to seek a higher profit margin from our customers who placed quality in higher priority, such as luxury brand shop operators. The increase in revenue of the projects for some luxury brands operators we managed during the period increased our gross profit margin.

### Analysis on revenue by geographical segments

Set out below is a summary of our revenue during the Track Record Period by geographic region:

	For the year ended 31 March			
	2013		2014	
	HK\$'000	%	HK\$'000	%
Hong Kong	391,168	72.4%	644,825	78.1%
PRC	149,058	27.6%	158,331	19.2%
Macau	<u>0</u>	<u>0.0%</u>	<u>22,223</u>	<u>2.7%</u>
	<u>540,226</u>	<u>100.0%</u>	<u>825,379</u>	<u>100.0%</u>

#### *Revenue from Hong Kong*

For the year ended 31 March 2014, our revenue from Hong Kong operations was approximately HK\$644.8 million, representing an increase of approximately HK\$253.7 million or approximately 64.8% from approximately HK\$391.2 million for the year ended 31 March 2013. As approximately 78.1% of our revenue derived from Hong Kong, the fluctuation of revenue was in line with the fluctuation of the total revenue.

#### *Revenue from the PRC*

For the year ended 31 March 2014, our revenue from the PRC operations was approximately HK\$158.3 million, representing an increase of approximately HK\$9.3 million or approximately 6.2% from approximately HK\$149.1 million for the year ended 31 March 2013, which was mainly attributable to more fitting out projects in the PRC and some fitting-out works projects for new shops of luxury brands in the PRC.

#### *Revenue from Macau*

For the year ended 31 March 2014, our revenue from Macau operations was approximately HK\$22.2 million, representing approximately 2.7% of the total revenue for the year ended 31 March 2014. From time to time, we may assist our existing customers with minor works services in Macau through our subsidiary Deson Macau. We began recognising profit for the Macau project for the year ended 31 March 2014.

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### Other income

An analysis of the Group’s other income and gains is as follows:

	For the year ended 31 March	
	2013	2014
	HK\$’000	HK\$’000
Bank interest income	177	192
Management fee income from the Remaining DDIHL Group	5,394	5,644
Management fee income from other parties	1,528	512
Gross rental income	822	907
Others(note)	901	5,032
	<u>8,822</u>	<u>12,287</u>

*Note:* It mainly includes reversal of accrued charges, interests from sub-contractors, penalty income from sub-contractors and handling charges.

Other income mainly comprises bank interest income, management fee income, gross rental income and others. Other income was approximately HK\$12.3 million for the year ended 31 March 2014, representing an increase of approximately HK\$3.4 million or approximately 39.3% from approximately HK\$8.8 million for the year ended 31 March 2013 mainly attributable to the reversal of accrued charges. For the year ended 31 March 2014, we have one-off reversal of unclaimed liabilities of approximately HK\$4.2 million. Those unclaimed liabilities were long outstanding amount due to the sub-contractors where our Directors considered that the probability of settlement was remote.

The aggregate management fee income was approximately HK\$6.2 million for the year ended 31 March 2014, representing a slight decrease of approximately HK\$0.8 million from approximately HK\$6.9 million for the year ended 31 March 2013. The management fee income was charged by reference to actual costs incurred for the services, such as staff salaries provided by our Group. Our Directors considered management fee income arose from the ordinary and usual course of our business.

During the Track Record Period, our Company held the properties of 11th Floor of Nanyang Plaza, No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong and Unit 2—31 on Level 11 and Car Parking Space No. B37 on Basement 2, Block D, Fu Hua Mansion, No. 8 Beida Street, Chaoyangmen, Dongcheng District, Beijing, the PRC. The rental income derived from those properties was approximately HK\$0.8 million and HK\$0.9 million respectively for the years ended 31 March 2013 and 2014. To focus on our Group’s core business, we intend to sell the property located at 11th Floor, Nanyang Plaza, No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong to a member of the Remaining DDIHL Group prior to Listing for the total consideration of approximately HK\$126.6 million. The consideration had been determined in accordance with the book value of the property. As a result of the disposal, we do not expect to record a gain or loss from the aforesaid disposal.

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### **Fair value gain on investment properties**

Fair value gain on investment properties was approximately HK\$0.6 million for the year ended 31 March 2014, representing a decrease of approximately HK\$0.7 million or approximately 53.1% from approximately HK\$1.4 million for the year ended 31 March 2013 which mainly due to the appreciation of our investment property in Beijing, the PRC. Gains or losses arising from changes in the fair values are included in the statement profit or loss in the year in which they arise.

### **Administrative expenses**

Our administrative expenses were mainly consisted of wages and salaries, depreciation, staff welfare, directors remuneration, audit fees, rental expenses and vehicle expenses. Our administrative expenses was approximately HK\$39.5 million for the year ended 31 March 2014, representing an increase of approximately HK\$3.9 million or approximately 10.8% from approximately HK\$35.6 million for the year ended 31 March 2013. Such increase was mainly due to (i) increase in staff cost by approximately HK\$1.6 million as salary increment; (ii) increase in depreciation by approximately HK\$1.3 million as the net carrying amount of our property, plant and equipment increased due to fair value revaluation for the leasehold land and building; and (iii) increase in staff welfare by approximately HK\$0.4 million.

### **Other operating expenses, net**

Our other operating net expenses mainly comprise profit or loss on disposal of properties, plants and equipments, reversal of impairment provision for accounts receivable, provision for other receivables and exchange difference. Our other operating net expenses were approximately HK\$0.1 million for the years ended 31 March 2013 and 2014.

### **Finance cost**

Our finance cost was approximately HK\$22,000 for the year ended 31 March 2014, representing a decrease of approximately HK\$34,000 from approximately HK\$56,000 for the year ended 31 March 2013. Such decrease was in line with the decrease in the balance of our interest-bearing bank loans and other borrowings.

### **Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period, unless our subsidiaries did not generate any assessable profits arising in Hong Kong during that year or our subsidiaries had available tax losses brought forward from prior years to offset the assessable profits generated during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which we operates.

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Our income tax expenses were approximately HK\$3.2 million and approximately HK\$4.4 million respectively, and the effective tax rates were approximately 30.3% and 21.7% respectively for the years ended 31 March 2013 and 2014. The decrease in the effective tax rate for the year ended 31 March 2014 was mainly due to the decrease in expenses not deductible for tax incurred during the year. Except for the disclosure set forth in the paragraph headed “Regulatory Overview — The PRC — Provisions on Taxation — Tax benefits” in this document, we did not have any preferential tax treatments, tax benefits or special tax arrangements which was material to our financial statements during the Track Record Period. Our Directors considered that the Company has paid all relevant taxes and no disputes or unresolved tax issues with relevant tax authorities was found during the Track Record Period.

### **Net profit and net profit margin**

As a result of the foregoing, our net profit was approximately HK\$7.3 million and approximately HK\$16.0 million respectively, resulting in net profit margin of approximately 1.3% and approximately 1.9% respectively for the years ended 31 March 2013 and 2014. The increase in net profit margin was mainly due to our growth in gross profit outweigh the increase in our administrative expenses.

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**COMBINED STATEMENTS OF FINANCIAL POSITION**

The following is the combined statements of financial position of our Group as at 31 March 2013 and 2014.

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Properties, plant and equipment	137,696	143,850
Investment properties	10,250	10,875
Total non-current assets	<u>147,946</u>	<u>154,725</u>
<b>CURRENT ASSETS</b>		
Gross amount due from contract customers	8,682	7,563
Due from related companies	5,357	5,115
Due from the Remaining DDIHL Group	920,341	943,410
Accounts receivable	56,635	68,906
Prepayments, deposits and other receivables	8,565	12,952
Pledged deposits	27,774	27,863
Cash and cash equivalents	23,716	69,263
Total current assets	<u>1,051,070</u>	<u>1,135,072</u>
<b>CURRENT LIABILITIES</b>		
Gross amount due to contract customers	58,222	87,845
Accounts payable	30,933	44,895
Other payables and accruals	21,334	22,607
Amount due to a non-controlling shareholder	1,500	1,500
Amount due to the Remaining DDIHL Group	762,713	793,641
Tax payable	80	1,278
Interest-bearing bank borrowings	41,029	48,182
Total current liabilities	<u>915,811</u>	<u>999,948</u>
<b>NET CURRENT ASSETS</b>	<u>135,259</u>	<u>135,124</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>283,205</u>	<u>289,849</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	35,805	15,117
Deferred tax liabilities	21,006	22,968
Total non-current liabilities	<u>56,811</u>	<u>38,085</u>
Net assets	<u>226,394</u>	<u>251,764</u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the Company</b>		
Issued capital	—	—
Reserves	220,577	245,941
	<u>220,577</u>	<u>245,941</u>
<b>Non-controlling interests</b>	5,817	5,823
Total equity	<u>226,394</u>	<u>251,764</u>

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### DISCUSSION OF MAJOR STATEMENTS OF FINANCIAL POSITION ITEMS

#### Property, plant and equipment

Our plant and equipments mainly comprise leasehold land and buildings, leasehold improvements, furniture and fixtures, office equipment, tools and equipment and motor vehicles. As at 31 March 2014, we held the properties at 11th Floor of Nanyang Plaza, No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong of approximately HK\$128.4 million and Flat A on 2nd Floor, Cheung Yick Industrial Building, No. 12 On Yip Street, Chai Wan, Hong Kong of approximately HK\$13.0 million.

#### Investment properties

Our investment properties are held under long term lease and were re-valued on 31 March 2013 and 2014 based on valuations performed by Peak Vision Appraisals Limited of approximately HK\$10.3 million and approximately HK\$10.9 million as at 31 March 2013 and 2014 respectively.

#### Gross amount due from / to contract customers

Gross amount due from customers for contract customers represent the differences calculated from contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date and the relevant progress billings. The following table sets forth the construction contracts as at the dates indicated:

	As at 31 March	
	2013	2014
	HK'000	HK'000
Gross amount due from contract customers	8,682	7,563
Gross amount due to contract customers	(58,222)	(87,845)
	<u>(49,540)</u>	<u>(80,282)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	1,914,113	1,224,693
Less: Progress billings	(1,963,653)	(1,304,975)
	<u>(49,540)</u>	<u>(80,282)</u>

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The gross amount due from contract customers remained stable at approximately HK\$8.7 million and approximately HK\$7.6 million respectively as at 31 March 2013 and 2014, while the gross amount due to customers for contract customers increased to approximately HK\$87.8 million as at 31 March 2014 from approximately HK\$58.2 million as at 31 March 2013. The increase in net amount due to customers for contract customers was mainly due to some of our major projects were at the early stage as at 31 March 2014, which we have not issued progress billings before reaching a certain completion percentage.

### Accounts receivable

Accounts receivable are the amount due from customers for construction contracts completed in our ordinary course of business. The following table sets forth the accounts receivable as of the dates indicated:

	As at 31 March	
	2013	2014
	HK'000	HK'000
Accounts receivable	53,138	59,777
Impairment	<u>(4,386)</u>	<u>(4,373)</u>
	48,752	55,404
Retention monies receivable	<u>7,883</u>	<u>13,502</u>
	<u>56,635</u>	<u>68,906</u>

Our sales with the customers are mainly on credit, which the credit period granted to the customers generally ranges from 14 to 90 days. For retention monies receivable in respect of construction work carried out by us, the due dates are usually one year after the completion of the construction work. We seek to maintain strict control over the outstanding receivables. Overdue balances are reviewed regularly by our senior management. We do not hold any collateral or other credit enhancements over the accounts receivable balances. Accounts receivable are non-interest-bearing.

The increase in gross accounts receivable and retention monies receivable to approximately HK\$59.8 million and approximately HK\$13.5 million respectively as at 31 March 2014 from approximately HK\$53.1 million and approximately HK\$7.9 million as at 31 March 2013 was primarily due to our business expansion. For the year ended 31 March 2014, our revenue has increased by approximately 52.8%, which our gross accounts receivable and retention monies receivable have increased by approximately 12.5% and approximately 71.3% respectively.

Meanwhile, our trade receivables turnover days decreased to approximately 30.5 days in 2014 from approximately 38.3 days in 2013 mainly due to the increase of our revenue. The shorter trade receivables turnover days showed that our extension of credit and collection of accounts receivable was more efficient. The trade receivable turnover days were calculated as the accounts receivable as at the year end, divided by our revenue for the year, multiplied by 365 days.

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The following table sets forth the aging analysis of accounts receivable as at the dates indicated:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
Current to 90 days	42,879	53,662
91 to 180 days	856	1,037
181 to 360 days	3,988	64
Over 360 days	<u>1,029</u>	<u>641</u>
	48,752	55,404
Retention monies receivable	<u>7,883</u>	<u>13,502</u>
Total	<u><u>56,635</u></u>	<u><u>68,906</u></u>

The movements in the provision for impairment of accounts receivable are as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
At 1 April	13,661	4,386
Amount written off as uncollectible	(9,206)	(28)
Impairment losses recognised/(reversed)	<u>(69)</u>	<u>15</u>
At 31 March	<u><u>4,386</u></u>	<u><u>4,373</u></u>

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable as at 31 March 2013 and 2014 of approximately HK\$4.4 million and approximately HK\$4.4 million respectively. The individually impaired accounts receivable relate to customers that were in financial difficulties or the customers that were in default in repayments and therefore the receivables were not expected to be recovered.

The aged analysis of the accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
Neither past due nor impaired	42,879	53,662
Less than 3 months past due	4,839	1,101
3 to 6 months past due	5	—
More than 6 months past due	<u>1,029</u>	<u>641</u>
	<u><u>48,752</u></u>	<u><u>55,404</u></u>

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Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. Based on our past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. None of the retention monies receivable is either past due or impaired. As at 31 July 2014, approximately 95.3% of the outstanding accounts receivable as at 31 March 2014 was settled.

### Prepayments, deposits and other receivables

The following table sets forth the prepayments, deposits and other receivables as at the dates indicated:

	As at 31 March	
	2013	2014
	HK\$'000	HK\$'000
Prepayments	1,029	871
Deposits	<u>1,034</u>	<u>1,110</u>
	<u>2,063</u>	<u>1,981</u>
Other receivables	10,725	15,258
Impairment	<u>(4,223)</u>	<u>(4,287)</u>
	<u>6,502</u>	<u>10,971</u>
	<u>8,565</u>	<u>12,952</u>

The prepayments and deposits remained stable at approximately HK\$0.9 million and approximately HK\$1.1 million as at 31 March 2014 from approximately HK\$1.0 million and approximately HK\$1.0 million as at 31 March 2013 respectively. The increase in other receivables to approximately HK\$15.3 million as at 31 March 2014 from approximately HK\$10.7 million as at 31 March 2013 was primarily due to the increase in advance to sub-contractors.

Except for other receivables against which impairment has been made, the remaining assets are neither past due nor impaired. The financial assets included in the above net balances relate to receivables for which there was no recent history of default.

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The movements in the provision for impairment of other receivables are as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
At 1 April	4,215	4,223
Impairment losses	—	64
Exchange realignment	8	—
AI 31 March	<u>4,223</u>	<u>4,287</u>

Included in the above provision for impairment of other receivables is a provision for individual other receivables that defaulted in repayments and these receivables were not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

**Cash and cash equivalents and pledged deposit**

Our cash and cash equivalents and pledged deposit were approximately HK\$69.3 million and approximately HK\$27.9 million respectively as at 31 March 2014, increased from approximately HK\$23.7 million and approximately HK\$27.8 million respectively as at 31 March 2013. For the analysis on cash flows during the Track Record Period, please refer to the paragraph headed “Cash flow” of this section.

**Accounts payable**

Accounts payable are mainly the amount due to sub-contractors and suppliers for their services and materials provided to us in our ordinary course of business. The increase in accounts payable to approximately HK\$44.9 million as at 31 March 2014 from approximately HK\$30.9 million as at 31 March 2013 was primarily due to our business expansion.

There was no material fluctuation in our trade payables turnover days for the year ended 31 March 2014 compared to that for the year ended 31 March 2013. Our trade payables turnover days were 22.4 days and 21.1 days respectively for the years ended 31 March 2013 and 2014. The trade payables turnover days were calculated as the trade payables as at the year end, divided by cost of sales for the year, multiplied by 365 days.

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The following table sets forth the aging analysis of accounts payable as of the dates indicated:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
Current to 90 days	26,523	40,940
91 to 180 days	153	—
181 to 360 days	407	—
Over 360 days	<u>3,850</u>	<u>3,955</u>
	<u><u>30,933</u></u>	<u><u>44,895</u></u>

During the Track Record Period, our purchases were mainly settled in Hong Kong dollars and Renminbi and most of them were settled by letter of credit or cheques. Most of our purchases are settled on a monthly basis and in arrears. Credit terms offered by our suppliers range from due on presentation of invoice up to a period generally not less than 30 days after delivery of goods or performance of services. Accounts payable are non-interest-bearing and are normally settled on 30-day terms. As at 31 July 2014, approximately 91.4% of the outstanding account payables as at 31 March 2014 was settled.

During the Track Record Period, we mainly relied on internal resources generated from our operation and debt financing to finance our business. We did not have any liquidity problem in settling our purchases during the Track Record Period.

**Other payables and accruals**

The following table sets forth the other payables and accruals as of the dates indicated:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK'000</i>	<i>HK'000</i>
Deposits received	67	604
Accruals	4,687	4,619
Other payables	<u>16,580</u>	<u>17,384</u>
	<u><u>21,334</u></u>	<u><u>22,607</u></u>

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## **FINANCIAL INFORMATION**

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The increase in deposits received to approximately HK\$0.6 million as at 31 March 2014 from approximately HK\$67,000 as at 31 March 2013 was primarily due to rental received in advance for our Beijing properties for the year ended 31 March 2014.

The accruals and other payables remained stable at approximately HK\$4.6 million and approximately HK\$17.4 million as at 31 March 2014 from approximately HK\$4.7 million and approximately HK\$16.6 million as at 31 March 2013 respectively.

Other payables are non-interest-bearing and repayable on demand.

### **Tax payable and deferred tax liabilities**

The amount of tax payable and deferred tax liabilities were approximately HK\$1.3 million and approximately HK\$23.0 million respectively as at 31 March 2014. Details of our taxation is set forth in the “Income tax” section in Note 10 and the “Deferred tax” section in Note 25 to the accountants’ report included in Appendix I to this document.

### **Interest-bearing bank borrowings**

For interest-bearing bank borrowings, details are set out in the paragraph headed “*Indebtedness*” in this section.

### **Amount due from related companies, the amount due from the Remaining DDIHL Group, amount due to a non-controlling shareholder and amount due to the Remaining DDIHL Group**

For the amount due from related companies, the amount due from the Remaining DDIHL Group, the amount due to a non-controlling shareholder and the amount due to the Remaining DDIHL Group, details are set out in the paragraph headed “*Related Party Transactions*” in this section.

### **KEY FINANCIAL RATIOS**

	<b>As at March 31</b>	
	<b>2013</b>	<b>2014</b>
Current ratio (Note 1)	1.1	1.1
Quick ratio (Note 2)	1.1	1.1
Gearing ratio (Note 3)	43.4%	34.1%
Inventory turnover days (Note 4)	N/A	N/A
Trade receivables turnover days (Note 5)	38.3	30.5
Trade payables turnover days (Note 6)	22.4	21.1

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## FINANCIAL INFORMATION

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	For the year ended	
	31 March	
	2013	2014
Return on equity (Note 7)	3.5%	6.5%
Return on total assets (Note 8)	0.6%	1.2%
Interest coverage (Note 9)	187.3	926.5

*Notes:*

- (1) Current ratio equals to current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets minus inventories and divided by total current liabilities.
- (3) Gearing ratio is calculated as total debt divided by total equity.
- (4) Inventory turnover days equals to the average inventory of the year divided by revenue during such year and then multiplied by 365 days.
- (5) Trade receivables turnover days equals to the accounts receivables balances as at the year end divided by the revenue during the year and then multiplied by 365 days.
- (6) Trade payables turnover days equals to the accounts payables balances as at the year end divided by the cost of sales during the year and then multiplied by 365 days.
- (7) Return on equity ratio equals to profit for the year attributable to the owners of the Company divided by equity attributable to owners of the Company.
- (8) Return on total assets ratio equals to profit for the year attributable to the owners of the Company divided by total assets.
- (9) Interest coverage ratio equals to profit before interest and tax divided by interest.

### **Current ratio and quick ratio**

As we did not have any inventory on the combined statements of financial position, current ratio was the same as quick ratio. Our current ratio and quick ratio remained stable at approximately 1.1 times as at 31 March 2013 and 2014. This was mainly due to the significant portion of amount due from the Remaining DDIHL Group and amount due to Remaining DDIHL Group on the combined statements of financial position.

### **Gearing ratio**

Our gearing ratio substantially improved as at 31 March 2014. Our gearing ratio was approximately 34.1% as at 31 March 2014 as compared to approximately 43.4% as at 31 March 2013, which was mainly due to our repayment of interest-bearing bank borrowings for the year ended 31 March 2014.

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## **FINANCIAL INFORMATION**

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### **Inventory turnover days**

As we did not have any inventory on our combined statements of financial position, this ratio is not applicable.

### **Trade receivables turnover days**

For the analysis on trade receivables turnover days during the Track Record Period, please refer to the paragraph headed “Accounts receivable” in this section.

### **Trade payables turnover days**

For the analysis on trade payables turnover days during the Track Record Period, please refer to the paragraph headed “Accounts payable” in this section.

### **Return on equity ratio**

Our return on equity ratio increased to approximately 6.5% for the year ended 31 March 2014 from approximately 3.5% for the year ended 31 March 2013, which was mainly due to the increase in profit for the year attributable to the owners of the Company by approximately HK\$ 8.3 million in the corresponding period.

### **Return on total assets ratio**

Our return on total assets ratio increased to approximately 1.2% for the year ended 31 March 2014 from approximately 0.6% for the year ended 31 March 2013, which was mainly due to the increase in profit for the year attributable to the owners of the Company by approximately HK\$ 8.3 million in the corresponding period.

### **Interest coverage**

Our interest coverage increased to approximately 926.5 times for the year ended 31 March 2014 from approximately 187.3 times for the year ended 31 March 2013, which was mainly due to the increase in profit before interest and tax for the year ended 31 March 2014.

For the purpose of preparing the financial statements, earnings per share information is not considered meaningful with regard to the Reorganisation and the presentation of the results for the Track Record Period on a combined basis.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the Track Record Period, our operation was generally financed through a combination of internally generated cash flows and bank borrowings. Our Directors believe that in the long term, our Group’s operation will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

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## FINANCIAL INFORMATION

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### Cash flow

The following table sets out the changes in our cash flows for the Track Record Period:

	For the year ended	
	31 March	
	2013	2014
	HK\$'000	HK\$'000
Net cash flows from operating activities	27,461	52,349
Net cash flows used in investing activities	(481)	(153)
Net cash flows from/(used in) financing activities	15,201	(127)
Cash and cash equivalents at the beginning of the year	(25,084)	17,251
Effect of foreign exchange rates changes, net	154	(67)
Cash and cash equivalents at end of the year	<u>17,251</u>	<u>69,253</u>

### Operating activities

Our operating cash inflows are principally derived from the receipt of payments for the sales of our construction/engineering services while our operating cash outflows are principally for the purchase of raw materials and other operating costs such as staff costs and utilities.

We recorded net cash flows from operating activities of approximately HK\$27.5 million for the year ended 31 March 2013, which was mainly attributable to the profit before tax of approximately HK\$10.4 million, mainly adjusted for movements in working capital of approximately HK\$17.7 million. The increase in working capital was mainly due to (i) the increase in accounts receivable of approximately HK\$32.8 million; (ii) the increase in gross amount due to contract customers of approximately HK\$28.6 million; and (iii) increase in accounts payable of approximately HK\$22.1 million.

We recorded net cash from operating activities of approximately HK\$52.3 million for the year ended 31 March 2014, which was mainly attributable to the profit before tax for the year of approximately HK\$20.4 million, mainly adjusted for movements in working capital of approximately HK\$34.5 million. The increase in working capital was mainly due to (i) the increase in accounts receivable of approximately HK\$12.3 million, (ii) the increase in gross amount due to contract customers of approximately HK\$29.6 million; and (iii) increase in accounts payable of approximately and HK\$18.2 million respectively.

### Investing activities

Net cash used in investing activities amounted to approximately HK\$0.5 million and approximately HK\$0.2 million for the years ended 31 March 2013 and 2014, which was mainly attributable to purchases of property, plant and equipment.

## **FINANCIAL INFORMATION**

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### **Financing activities**

Net cash from financing activities amounted to approximately HK\$15.2 million for the year ended 31 March 2013, which was mainly due to new bank borrowings of approximately HK\$70.9 million, offset by repayment of bank and other borrowings of approximately HK\$14.8 million and decrease in balances with the Remaining DDIHL Group of approximately HK\$33.1 million.

Net cash used in financing activities amounted to approximately HK\$0.1 million for the year ended 31 March 2014, which was mainly due to new bank borrowings of approximately HK\$27.4 million, offset by repayment of bank and other borrowings of approximately HK\$34.5 million and increase in balances with the Remaining DDIHL Group of approximately HK\$7.6 million.

### **Net current assets and liabilities**

As at 31 March 2014, we had net assets of approximately HK\$251.8 million, comprising non-current assets comprising properties, plant and equipment and investment properties of approximately HK\$154.7 million in aggregate, net current assets of approximately HK\$135.1 million and non-current liabilities of approximately HK\$38.1 million.

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**FINANCIAL INFORMATION**

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*Net current assets*

The following table sets out our current assets and liabilities as at 31 March 2013 and 2014:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT ASSETS</b>		
Gross amount due from contract customers	8,682	7,563
Due from related companies	5,357	5,115
Due from the Remaining DDIHL Group	920,341	943,410
Accounts receivable	56,635	68,906
Prepayments, deposits and other receivables	8,565	12,952
Pledged deposits	27,774	27,863
Cash and cash equivalents	23,716	69,263
<b>Total current assets</b>	<u>1,051,070</u>	<u>1,135,072</u>
<b>CURRENT LIABILITIES</b>		
Gross amount due to contract customers	58,222	87,845
Accounts payable	30,933	44,895
Other payables and accruals	21,334	22,607
Amount due to a non-controlling shareholder	1,500	1,500
Amount due to the Remaining DDIHL Group	762,713	793,641
Tax payable	80	1,278
Interest-bearing bank borrowings	41,029	48,182
<b>Total current liabilities</b>	<u>915,811</u>	<u>999,948</u>
<b>NET CURRENT ASSETS</b>	<u>135,259</u>	<u>135,124</u>

Our net current assets position remained stable at approximately HK\$135 million as at 31 March 2014 as compared to that of the previous year.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Borrowings

The following table sets out our Group’ indebtedness as at the respective financial position dates below:

	As at 31 March		As at 31 July
	2013	2014	2014
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Amounts due to a non-controlling shareholder	1,500	1,500	1,500
Amounts due to the Remaining DDIHL Group	762,713	793,641	779,738
Interest-bearing bank borrowings	<u>76,834</u>	<u>63,299</u>	<u>81,403</u>
	<u>841,047</u>	<u>858,440</u>	<u>862,641</u>

The table below set forth a summary of our bank borrowings as at 31 March 2013 and 2014.

	As at 31 March		As at 31 July
	2013	2014	2014
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current	41,029	48,182	81,403
Non-current	<u>35,805</u>	<u>15,117</u>	<u>—</u>
	<u>76,834</u>	<u>63,299</u>	<u>81,403</u>

	As at 31 March		As at 31 July
	2013	2014	2014
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Analyses into:			
Bank loans, overdrafts and trust receipt loans repayable:			
Within one year or on demand	41,029	48,182	81,403
In the second year	687	15,117	—
In the third to fifth year	<u>35,118</u>	<u>—</u>	<u>—</u>
	<u>76,834</u>	<u>63,299</u>	<u>81,403</u>

The carrying amounts of these bank borrowings approximate to their fair values as at the end of the reporting period. The fair value of bank borrowings has been calculated by discounting the expected future cash flows at the prevailing interest rates.

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## FINANCIAL INFORMATION

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Our bank borrowings amounted to approximately HK\$76.8 million, approximately HK\$63.3 million and approximately HK\$81.4 million as at 31 March 2013 and 2014 and 31 July 2014 respectively.

As at 31 March 2013 and 2014, our Group’s banking facilities as at 31 March 2013 and 31 March 2014 are secured by:

- (i) the pledge of certain of our Group’s leasehold land and buildings situated in Hong Kong of approximately HK\$134.8 million and approximately HK\$141.4 million, respectively;
- (ii) the pledge of our Group’s deposits of approximately HK\$27.8 million and approximately HK\$27.9 million, respectively;
- (iii) corporate guarantees executed by the Remaining DDIHL Group for banking facilities granted to the Group as at 31 March 2013 and 2014, which shall be released upon Listing and replaced by corporate guarantees granted by our Company; and
- (iv) cross guarantees executed by certain subsidiaries of our Group and a fellow subsidiary for banking facilities of approximately HK\$130.0 million and approximately HK\$130.0 million granted to them as at 31 March 2013 and 2014, respectively.

Certain of our Group’s bank loans contain repayment on demand clauses, based on the maturity terms of the bank loans and trust receipt loans, the amounts repayable in respect of our Group’s interest-bearing bank borrowing as at 31 March 2013 and 2014 are: within one year or on demand of approximately HK\$41.0 million and approximately HK\$48.2 million, respectively; in the second year of HK\$0.7 million and approximately HK\$15.1 million, respectively; in the third to fifth years, inclusive of approximately HK\$35.1 million and nil, respectively. Details of the contractual interest rate and maturity of our interest-bearing bank borrowings are set forth in Note 24 to the accountants’ report included in Appendix I to this document.

### Operating lease arrangements

Our Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years. As at 31 March 2013 and 2014, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 March	
	2013	2014
	HK\$’000	HK\$’000
Within one year	567	733
In the second to fifth years, inclusive	<u>139</u>	<u>8</u>
	<u>706</u>	<u>741</u>

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## **FINANCIAL INFORMATION**

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### **Capital Commitments**

As at 31 March 2013 and 2014, our Group did not have any significant capital commitments.

### **Contingent Liabilities**

The Group has executed a cross guarantee of HK\$130,000,000 to a bank for banking facilities granted to certain subsidiaries of the Group and a fellow subsidiary as at 31 March 2013 and 2014. Nil and HK\$687,000 of the banking facilities granted were utilised by this fellow subsidiary as at 31 March 2013 and 2014 respectively.

Except for the aforesaid or as otherwise disclosed herein, our Directors confirm that, up to the Latest Practicable Date, our Group has not recorded any other contingent liabilities since 31 March 2014.

Save as aforesaid or as otherwise disclosed herein, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities at the close of business on 31 July 2014, being the date of the indebtedness statement.

Our Directors have confirmed that (i) there has not been any material adverse change in the Group's indebtedness and contingent liabilities since 31 July 2014, being the date for determining the Group's indebtedness, up to the Latest Practicable Date; (ii) our banking facilities are subject to standard banking conditions and covenants; (iii) our Group has complied with all of the covenants under our banking facilities during the Track Record Period; (iv) our Group has not received any notice from our banks indicating that they might withdraw or downsize the bank facilities.

### **CAPITAL EXPENDITURE**

Our capital expenditure for the years ended 31 March 2013 and 2014 amounted to approximately HK\$0.6 million and approximately HK\$0.3 million respectively, comprising mainly expenditures for purchase of property, plant and equipment.

### **OFF-BALANCE SHEET TRANSACTIONS**

Except for the commitments set forth above, we have not entered into any material off-balance sheet transactions or arrangements.

### **FINANCIAL INSTRUMENTS**

Except as otherwise disclosed, we have not entered into any other financial instruments for hedging purposes.

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## **FINANCIAL INFORMATION**

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### **EVENTS AFTER THE REPORTING PERIOD**

On [date], the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company’s shares on the Stock Exchange. Please refer to the section headed “History, Reorganisation and corporate structure — Overview of the Reorganisation” to this document for further details of the Reorganisation.

### **LISTING EXPENSES**

The total amount of listing expenses in connection with the Listing is estimated to be approximately HK\$14.4 million, expected to be charged to the combined statements of profit or loss of our Group for the year ending 31 March 2015. No listing expenses will be capitalised for listing by way of introduction. The estimated listing expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Group upon the completion of the Listing.

### **RELATED PARTY TRANSACTIONS**

The amount due from related companies, the amount due from the Remaining DDIHL Group were approximately HK\$5.1 million and approximately HK\$943.4 million respectively and the amount due to a non-controlling shareholder and the amount due to the Remaining DDIHL Group were approximately HK\$1.5 million and approximately HK\$793.6 million respectively as at 31 March 2014, which were the amount transferred or payments on behalf of other related parties before the Spin-off. The amount were unsecured, non-interest bearing and repayable on demand. Such amount will be fully settled before the Listing.

Immediately before Listing and as part of the Reorganisation, our Company will declare a special dividend to Deson Development Holdings, and Deson Development Holdings will use the amount received from the dividend to pay for and set off against part of the net amount due by Deson Development Holdings to our Company. All the remaining outstanding inter-company balance due from Deson Development Holdings to our Company will then be settled in cash.

In addition, we had the following material transactions with related parties during the Track Record Period.

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee received from the Remaining DDIHL Group	5,394	5,644
Management fee received from a related company	55	55
Rental income from related companies	<u>306</u>	<u>306</u>

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The management fees were charged by reference to actual costs incurred for the services provided by our Group. During the Track Record Period, rental income was charged to Fitness Concept Limited at HK\$25,500 per month. Mr. Tjia is a director of and has beneficial interests in Fitness Concept Limited while Mr. Keung Kwok Cheung is a director of Fitness Concept Limited. As we intended to sell the properties at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong to a member of the Remaining DDIHL Group, the aforesaid rental income will ceased to be received upon completion of the Reorganisation.

**MARKET RISKS**

In the normal course of business, we are exposed to various types of market risks, including the following:

**Interest rate risk**

We are exposed to the risk of changes in market interest rates relates primarily to our debt obligations with floating interest rates in Hong Kong. The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in Note 24 to the Accountants’ Report included in Appendix I to this document. Other financial assets and liabilities of our Group do not have material interest rate risk. Interest-bearing bank loans and overdrafts, cash and bank balances, and short term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expense are charged to the combined statement of profit or loss as incurred. The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

*Sensitivity analysis*

For illustrative purpose, the following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar interest rate, with all other variables held constant, of our Group’s profit before tax and equity (through the impact on floating rate borrowings).

	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in profit before tax <i>HK\$’000</i></b>	<b>Increase/ (decrease) in equity* <i>HK\$’000</i></b>
<b>31 March 2013</b>			
Hong Kong dollar	100	(757)	—
Hong Kong dollar	(100)	757	—
<b>31 March 2014</b>			
Hong Kong dollar	100	(807)	—
Hong Kong dollar	(100)	807	—

\* Excluding retained profits

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## FINANCIAL INFORMATION

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### Currency risk

The monetary assets and transactions of several subsidiaries of our Group are principally denominated in foreign currencies, which expose our Group to foreign currency risk. We currently has no particular hedging vehicles to hedge our exposure to foreign exchange risk. It is our Group’s policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

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.

### Sensitivity analysis

For illustrative purpose, the following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group’s profit before tax and the Group’s equity (due to changes in the fair value of monetary assets and liabilities).

		<b>Increase/ (decrease) in profit before tax HK\$’000</b>	<b>Increase/ (decrease) in equity* HK\$’000</b>
<b>31 March 2013</b>			
If Hong Kong dollar weakens against RMB	5	21	—
If Hong Kong dollar strengthens against RMB	(5)	(21)	—
<b>31 March 2014</b>			
If Hong Kong dollar weakens against RMB	5	(259)	—
If Hong Kong dollar strengthens against RMB	(5)	259	—

\* Excluding retained profits

### Credit risk

We trade only with recognised and creditworthy third parties. It is our Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our Group’s exposure to bad debts is not significant.

The credit risk of our Group’s other financial assets, which comprise an amount due from a related company, other receivables, cash and cash equivalents and pledged deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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**FINANCIAL INFORMATION**

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Since we trade only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of our Group’s accounts receivable are widely dispersed in different sectors and industries.

**Liquidity risk**

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

Our Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and other interest-bearing borrowings. Our Group’s policy is to ensure the matching of maturity of its financial liabilities against that of its financial assets, and the maintenance of a current ratio, defined as current assets over current liabilities, at above one so as to enhance a stable liquidity.

The maturity profile of the Group’s financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

<b>As at 31 March 2013</b>	<b>On demand</b>	<b>Less than 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Accounts payable	—	30,933	—	30,933
Financial liabilities included in other payables and accruals	19,836	—	—	19,836
Amount due to a non-controlling shareholder	1,500	—	—	1,500
Amount due to the Remaining DDIHL Group	762,713	—	—	762,713
Interest-bearing bank borrowings	—	42,849	35,805	78,654
Guarantees given to a bank in connection with facilities granted to a fellow subsidiary	6,000	—	—	6,000
	<u>790,049</u>	<u>73,782</u>	<u>35,805</u>	<u>899,636</u>

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**FINANCIAL INFORMATION**

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<b>As at 31 March 2014</b>	<b>On demand</b>	<b>Less than 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts payable	—	44,895	—	44,895
Financial liabilities included in other payables and accruals	21,409	—	—	21,409
Amount due to a non-controlling shareholder	1,500	—	—	1,500
Amount due to the Remaining DDIHL Group	793,641	—	—	793,641
Interest-bearing bank borrowings	—	49,379	15,117	64,496
Guarantees given to a bank in connection with facilities granted to a fellow subsidiary	6,000	—	—	6,000
	<u>822,550</u>	<u>94,274</u>	<u>15,117</u>	<u>931,941</u>

In accordance with the terms of the loans, the contractual undiscounted payments as at 31 March 2013 and 2014 for the interest-bearing bank borrowings in respect of the Group were approximately HK\$42.8 million and approximately HK\$49.4 million respectively, within one year, approximately HK\$1.6 million and approximately HK\$15.4 million respectively, in the second year, approximately HK\$35.3 million and nil respectively, in two to five years.

**TAXATION**

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, are exempted from the payment of the Cayman Islands income tax. For our subsidiaries incorporated in the BVI, they are incorporated as BVI business companies under the BVI Business Companies Act, 2004 and are exempted from payment of income tax of BVI.

For our subsidiaries incorporated in Hong Kong and the PRC, Hong Kong profits tax is calculated at the rate of 16.5% on the estimated assessable profit for the Track Record Period, while the PRC Enterprise Income Tax (“EIT”) is calculated at the applicable rates in accordance with the income tax laws of the PRC.

**DIVIDEND AND DIVIDEND POLICY**

The Company does not have any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the decision by the Board and will depend on, among other things, the earnings, financial condition, cash requirements and availability, the availability of funds to meet the financial covenants of our Group’s bank loans and any other factors that our Directors may consider relevant.

Our ability to make dividend payments will also depend upon the availability of dividends received from our subsidiary companies. The PRC law requires that dividends be paid only out of net profit calculated according to the PRC accounting principles, which differ in many aspects from

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## **FINANCIAL INFORMATION**

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generally accepted accounting principles in other jurisdictions, including the HKFRSs. The PRC law also requires foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from some of our subsidiary companies may also subject to the PRC withholding tax and be restricted if they incur debt or losses. Assuming we are able, in accordance with these contractual and legal restrictions, to pay dividends, the declaration of, payment and amount of dividends will still be subject to the discretion of our Directors in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, our business opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, payments by subsidiaries of cash dividends to us and legal, tax and regulatory restrictions. In addition, the Controlling Shareholder will be able to influence our dividend policy. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

### **WORKING CAPITAL**

[Our Directors are of the opinion that, taking into account its financial resources presently available to the Group, including internal resources and available banking facilities, the Group has sufficient working capital for its present working capital requirements, that is for at least the next 12 months from the date of this document.]

### **DISTRIBUTABLE RESERVES**

There were no distributable reserves available for distribution to shareholders as at 31 March 2014 because our Company was incorporated on 18 July 2014.

### **NO MATERIAL ADVERSE CHANGE**

Save for the estimated non-recurring Listing expenses, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in financial or trading position or prospects of our Group since 31 March 2014, being the date on which the latest financial information of our Group was reported in the accountants' report included in Appendix I to this document.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS**

[REDACTED]

**FINANCIAL INFORMATION**

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[REDACTED]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**FINANCIAL INFORMATION**

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[REDACTED]

**DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES**

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### OVERVIEW

DDIHL was incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange (Main Board, stock code: 00262) since 10 June 1997. As at the Latest Practicable Date, Mr. Tjia, directly and indirectly through Sparta Assets Limited, was interested in approximately [REDACTED]% of the issued and paid-up share capital of DDIHL.

On 7 August 2014, DDIHL submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. On 2 September 2014, DDIHL obtained confirmation from the Stock Exchange that it may proceed with the proposal. Following completion of the Spin-off, Remaining DDIHL Group will be principally engaged in the business of (i) property development and investment; (ii) trading of medical equipment and home security and automation products, and provision of related installation and maintenance services; and (iii) trading of various granite and marble products, stone slabs and products for construction market (collectively referred to as the “**Remaining Businesses**”), whereas our Group will focus on the Construction and Engineering Contracting Business. The Spin-off aims to allow separate platforms for the two businesses of the Remaining DDIHL Group and our Group with clear delineation. Our Directors believe that the Spin-off will bring benefits to both Remaining DDIHL Group and our Group, details of which are described under the section headed “The Distribution and the Spin-off — Reasons for and benefits of the Spin-off” in this document.

Immediately upon completion of the Reorganisation and the Distribution, DDIHL, through its wholly-owned subsidiary, Deson Development Holdings, will hold approximately [REDACTED]% interest in our Company and DDIHL will be the Controlling Shareholder of our Company.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

The Board is entirely satisfied that, after the Listing, our Company can carry on business independently of the Remaining DDIHL Group for the reasons set out below:

#### **Clear delineation between the business of our Group and the business of the Remaining DDIHL Group**

By the nature of the services provided by our Group and the nature of the core businesses of the Remaining DDIHL Group, there is a clear delineation of the core businesses as between our Group and the Remaining DDIHL Group, and this distinct separation of operations has been in place since the Construction and Engineering Contracting Business and the Remaining Businesses were established in 1988 and 1993, respectively. Our Group is currently engaged in the Construction and Engineering Contracting Business essentially comprising of building construction, electrical and mechanical engineering works, renovation and fitting-out work contracting services. On the other hand, the Remaining DDIHL Group is currently engaged in the Remaining Businesses, being property investment and development, the trading of medical equipment and home security and automation products, and provision of related installation and maintenance services as well as the trading of various granite and marble products, stone slabs and products for construction market.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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Save for (i) the 10% non-controlling investment interest 浙江省建設投資集團有限公司 (Zhejiang Construction Investment Group Corporation, Ltd.) (“**ZCIGC**”); and (ii) the entire interest in Deson Innovative Limited (“**DIL**”), a company that is engaged in the trading of home security and automation product and provision of related installation and maintenance services as described below, which businesses are not in direct competition with our Group, the Remaining DDIHL Group has no other construction and engineering contracting business in Hong Kong and the PRC during the Track Record Period and in the future. Accordingly, given the different nature of the businesses of our Group and the Remaining DDIHL Group, our Company does not expect there to be any overlap or competition between the Construction and Engineering Contracting Business and the Remaining Businesses.

Our Directors believe that each of the Remaining DDIHL Group and our Group can function, operate and carry on business independently of each other based on the following reasons:

**(a) Established and substantial business**

Each of the Construction and Engineering Contracting Business and the Remaining Businesses is well established and is a substantial business on its own right. The revenue of our Group’s business for the years ended 31 March 2013 and 2014 was approximately HK\$540.2 million and approximately HK\$825.4 million respectively. The revenue of the Remaining DDIHL Group’s business for the years ended 31 March 2013 and 2014 was approximately HK\$249.4 million and approximately HK\$159.6 million, respectively.

**(b) Different location of the business operations**

The Construction and Engineering Contracting Business has always been operated independently from the Remaining Businesses. Both our Group and the Remaining DDIHL Group have always been operated as separate profit centres and save for sharing of certain administration support functions as described below and sharing of certain office spaces in Hong Kong and Shanghai, the PRC as described in the section headed “Connected transactions” in this document, occupied different and distinct office premises in Hong Kong and the PRC. The targeted markets of the Remaining Businesses are, currently and in the near future, mainly located in Hainan Province, Shanghai and the City of Kaifeng, the PRC, while the targeted markets of the Construction and Engineering Contracting Business is mainly located in the PRC and Hong Kong.

**(c) Different expertise**

In addition, expertise required for the Spin-off Business and the Remaining Businesses is different. The Spin-off Business has generally been headed by Mr. Keung Kwok Cheung, an executive Director, who is experienced in the fields of civil, structural and building engineering and in the management of large-scale projects. Mr. Keung is in charge of our Group’s engineering and contracts departments while the Remaining Businesses were generally headed by Mr. Wang Jing Ning, an executive director of DDIHL, who is experienced in hotel management and property development and is responsible for the Remaining DDIHL Group’s projects in the PRC. Both Mr. Keung and Mr. Wang are supported by their own team of senior management and staff who are not on the payroll of the

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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other. Mr. Tjia, the non-executive director and chairman of our Company, who is also an executive director and deputy chairman of DDIHL and one of the co-founders of the DDIHL Group, is responsible for the overall corporate strategy of the Remaining DDIHL Group, including business development and overall management.

**(d) Independence with respect to operations**

Save for certain administrative support services which are not essential for the business operations of our Group as described below, our Group does not rely on the Remaining DDIHL Group for any staffing or marketing for its business, or vice versa. Our Group has independent access to customers, suppliers and sub-contractors without reliant on the Remaining DDIHL Group. We generally identify potential projects through receiving (i) letter of invitations to tender or otherwise becoming aware of open tenders; or (ii) request for quotations from our customers or their agents. Save for (1) one fitting-out contract (together with one variation order) for a hotel project in Sichuan, the PRC for an aggregate sum of RMB4.47 million (equivalent to approximately HK\$5.59 million) (including the agreed contract sum of approximately RMB2.67 million (equivalent to approximately HK\$3.34 million)), which our Group is a project manager and which the Remaining DDIHL Group has 5% equity interest (as a passive investor) in the customer of our Group; and (2) a tender award for a project in Hong Kong to provide electrical and mechanical works with a quotation for contract of approximately HK\$27.7 million granted by a subsidiary of ZCIGC, which formal contract has yet to be entered into as at the Latest Practicable Date, all the other customers of our Group are independent from the Remaining DDIHL Group and its connected persons. Our Directors confirmed that our Group is not expected to enter into any new project with that one particular customer which the Remaining DDIHL Group has 5% equity interest upon completion of the existing project. In addition, the tender awarded to our Group by a subsidiary of ZCIGC in Hong Kong was through a normal and fair tender process and the Remaining DDIHL Group only has a passive investment in ZCIGC and does not have any management control in ZCIGC so as to assert any influence on the decision of any members of ZCIGC to grant any tender to any members of our Group. On the basis that the percentage ratios (other than profit ratio) for each of the above two transactions are below 5% of our Group, our Directors do not consider these two transactions would affect our Group’s operational independence from the Remaining DDIHL Group.

During the Track Record Period, we mainly served customers from the private sector in Hong Kong and the PRC and the public sector in Hong Kong including departments of HK Government and semi-government bodies. Due to our well-established relationship with our existing customers, our long operating history in Hong Kong and the PRC and the common use of tendering in the industry, we are able to rely on our existing customer base, reputation and client referrals as well as awareness of public tenders in attracting new customers. All past tenders of our Group were prepared and submitted by our operational and management teams. Thus, our Directors believe that we demonstrate the independent strength in attracting customers and will continue to be so in the future. On the other hand, our suppliers include suppliers of materials (such as concrete, steel reinforcement, cables and switch boards) as well as service providers (such as our sub-contractors). As at the Latest Practicable Date, we had over 700 suppliers and sub-contractors in our list of approved suppliers and sub-contractors, who are all Independent Third Parties. We are fully involved in the selection of our

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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suppliers and sub-contractors based on the pre-determined selection criteria. Please refer to paragraphs headed “Our business and operations — General workflow”, “Customers — Sales and marketing” and “Suppliers — Criteria for selecting suppliers and sub-contractors” in the section headed “Business” for further information.

As at the Latest Practicable Date, our Group has around 139 employees while the Remaining DDIHL Group has around 161 employees. After the Spin-off, our Group’s employees will not be on the payroll of the Remaining DDIHL Group. In addition, our Group has our own financial management and relevant personnel who are independent from the Remaining DDIHL Group. Our Group also already has our own treasury functions and accounting system geared to the specific needs of the Construction and Engineering Contracting Business, which were independently developed and owned by our Group and are not shared with the Remaining DDIHL Group. In addition, each of our Group and the Remaining DDIHL Group has obtained all the licences, approvals and permits from the appropriate regulatory authorities that are materials for their business operations.

To address potential conflicts of interests between our Group and the Remaining DDIHL Group, the following procedures will be adopted after the Spin-off:

- (a) our Company will enter into a non-competition agreement with DDIHL (the “**Non-competition Agreement**”). Further details are discussed in paragraph headed “Non-competition Agreement” in this section below;
- (b) our Company will maintain a sufficient level of independence of directorship and management from the Remaining DDIHL Group. Further details are discussed in paragraph headed “Independence of management and directorship” in this section below. The majority of our Directors will have no role in, and be independent from, the Remaining DDIHL Group. Moreover, each of the Remaining DDIHL Group and our Group will have a team of full-time senior management and employees focused exclusively on the business of the Remaining DDIHL Group and our Group, respectively;
- (c) the management structure of the Remaining DDIHL Group includes and will continue to include an audit committee, a remuneration committee and a nomination committee for the Remaining DDIHL Group, the terms of reference of each of which will require them to be alert to prospective conflict of interest issues and to formulate their proposals accordingly. Our Group will also have its own audit committee, remuneration committee, nomination committee and internal control committee; and
- (d) any continuing connected transactions between the Remaining DDIHL Group and our Group will be transacted in compliance with the Listing Rules and the GEM Listing Rules respectively.

### **Financial independence of our Group from the Remaining DDIHL Group**

Upon Listing, our Group will be financially independent of the Remaining DDIHL Group.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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### *Corporate guarantee*

There are currently certain credit facilities provided by financial institutions to our Group which are guaranteed by DDIHL. It is our Directors’ intention that upon Listing, the credit facilities of our Group and those of the Remaining DDIHL Group will be segregated. There are also a number of performance bonds in the name of our Group companies which are guaranteed by the Remaining DDIHL Group. Such corporate guarantees will be released or replaced by guarantees by our Company upon Listing. Moreover, on an ongoing basis following the Listing, our Company does not intend that any member of the Remaining DDIHL Group will issue any corporate guarantees for any members of our Group.

In addition, it is expected that our Group will also settle all the intercompany balances between our Group and the Remaining DDIHL Group before the Listing partly by way of special dividend declared by our Group and partly by cash. Upon Listing, there will be no amounts due to the Remaining DDIHL Group by our Group, or vice versa. Thus, upon release of the corporate guarantees and the settlement of the intercompany balances, our Group will be financially independent from the Remaining DDIHL Group. In respect of future financial resource requirements, our Company may either obtain loans from financial institutions, or raise funds through equity financing (other than from the Remaining DDIHL Group), and will not be dependent on the Remaining DDIHL Group for future financing.

### **Independence of management and directorship**

Following the completion of the separate listing, DDIHL and our Company will have separate boards of directors that will function independently of each other. Upon Listing, the directorship and management of DDIHL and our Company is as follows:

<b>Position</b>	<b>Directors of our Company</b>	<b>Directors of DDIHL</b>
Executive Directors	<ul style="list-style-type: none"><li>• Keung Kwok Cheung</li><li>• Kwok Koon Keung</li><li>• Lo Wing Ling</li></ul>	<ul style="list-style-type: none"><li>• Lu Quanzhang (Chairman)</li><li>• Tjia Boen Sien</li><li>• Wang Jing Ning</li></ul>
Non-executive Directors	<ul style="list-style-type: none"><li>• Tjia Boen Sien (Chairman)</li></ul>	<ul style="list-style-type: none"><li>• Wong Shing Kay, Oliver</li></ul>
Independent Non-executive Directors	<ul style="list-style-type: none"><li>• Lee Tho Siem</li><li>• Cheung Ting Kee</li><li>• Ong King Keung</li></ul>	<ul style="list-style-type: none"><li>• Dr. Raymond Ho Chung-Tai</li><li>• Ir Siu Man-po</li><li>• Siu Kam Chau</li></ul>

Our Group will have a separate management team from the Remaining DDIHL Group, due, principally, to the fact that the underlying businesses of our Group and the Remaining DDIHL Group

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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are, themselves, different. Save for one director of DDIHL who is the non-executive Director and will not be involved in the day-to-day management and operations of our Group’s business, there is no common director between our Company and DDIHL upon Listing. All the other executive directors of DDIHL who previously hold directorship in any members of our Group have resigned as Directors.

Our Group’s operations have been led by Mr. Keung Kwok Cheung since 1998. He is responsible for our Group’s engineering and contracts departments. He has over 25 years’ experience in the fields of civil, structural and building engineering and in the management of large-scale projects. During the two years ended 31 March 2014, Mr. Keung was a director of DDIHL and he will resign from the board of directors of DDIHL upon Listing. Mr. Keung will be appointed as the chief executive officer and an executive Director of our Company upon Listing and will be responsible for overseeing the strategic and operational decisions of the business of our Group. The other two executive Directors, being Mr. Kwok Koon Keung and Mr. Lo Wing Ling joined our Group since 1996 and 2000 respectively. Mr. Kwok will have overall responsibility over the building construction contracting business while Mr. Lo will have overall responsibility over the electrical and mechanical engineering services contracting business of our Group.

Being a consolidated subsidiary of the Remaining DDIHL Group, our Company has one non-executive Director nominated by DDIHL on its board. Such non-executive Director is Mr. Tjia, who will play a consultative role in our Company and to provide independent judgement on matters relating to strategy and performance for our Group.

For the reasons set out below, our Directors believe that our Group will be able to operate independently of the Controlling Shareholder (including any close associate thereof) after Listing for the following reasons:

- (i) save for one common director, all the other members of the board of Directors are independent of, and are free from, any common directorships with the board of directors of DDIHL;
- (ii) our chief executive officer, Mr. Keung, will resign as a director of DDIHL upon the Listing and has resigned as a director of any member of the Remaining DDIHL Group and will have no on-going role with the Remaining DDIHL Group. He will have dedicated responsibility for our Group. He will be primarily responsible for the overall management of our Group in both the day-to-day and strategic matters. The other two executive Directors, Mr. Kwok and Mr. Lo have no directorship or management involvement in the Remaining DDIHL Group. The management team and the staff of our Company will report to Mr. Keung, Mr. Kwok and Mr. Lo and they will be accountable to our Board for the results of the business versus the established business plans and budgets, a role they each can pursue without risk of conflict;
- (iii) the non-executive Director, namely, Mr. Tjia, is not involved in the day-to-day management of our Group. Mr. Tjia has resigned from most of our major operating subsidiaries except for Beijing Chang-de, which is a joint venture company with BCEG. Mr. Tjia will continue to be a director of Beijing Chang-de to maintain relationship with the joint venture party but he will not be responsible for the day to day management of Beijing Chang-de;

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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- (iv) the following corporate governance measures will be put in place to adequately deal with any potential conflict of interest in respect of the conflicting position of overlapping directors of our Group and the Remaining DDIHL Group, and to safeguard the interests of independent Shareholders:
- in accordance with Rule 5.05(1) of the GEM Listing Rules, the board of Directors must comprise of three independent non-executive Directors (“INEDs”) who are independent from the Remaining DDIHL Group. The three INEDs will be able to provide independent judgement on matters discussed by our Board, take the lead where potential conflicts of interests arise and to protect the interests of independent Shareholders. A majority of members of the audit committee (including the chairman of the committee) and a majority of the members of the remuneration committee and internal control committee of our Company will be INEDs;
  - the conflicting director will, abstain from voting and not be counted in the quorum at any board meeting where a conflict of interest arises, and in the event there is an equality of votes by the remaining directors on a resolutions, the chairman presiding at such board meeting shall have a second or casting vote. Likewise, the conflicting shareholder will abstain from voting at any shareholders meeting where a conflict of interest arises. In this context, a conflict will be taken to include any matter in which the Remaining DDIHL Group has an interest (direct or indirect). Such a corporate governance measure will be incorporated in the Articles of Association;
  - all of our Directors will receive training on their responsibilities as directors, including on their fiduciary duties to act in the best interests of our Group;
  - instances of actual and potential conflict have been identified (please see section headed “Connected transactions” in this document), minimised (by virtue of the Non-competition Agreement) and will be regulated in accordance with the Listing Rules or the GEM Listing Rules. Where our Board is required to determine matters under the Non-competition Agreement or any connected transactions, such matters will be referred to the INEDs and/or to those who do not have a material interest in the matter;
  - a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually to the INEDs and our Company’s auditors; and
  - specific corporate governance measures have been put in place in respect of enforcement of the Non-competition Agreement given by DDIHL mentioned above.
- (v) save for the one overlapping director, our Directors confirm that the senior management and employees of our Group will be employed by our Group separately from the Remaining DDIHL Group so that the management team of our Group will act independently for our Group.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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### **Independent administrative capability**

The administrative functions of our Group have been and will be carried out by our Group without reliance on the support of the Remaining DDIHL Group. Our Group will have a full time management team to handle our administrative functions separately from that of DDIHL. The back-office support services comprising accounting and finance, human resource management, corporate secretarial and compliance have been and will be handled by a team of employees employed directly by our Group separately from the Remaining DDIHL Group. Conversely, those accounting and finance, human resource management, corporate secretarial and compliance of the Remaining DDIHL Group will be employed by the Remaining DDIHL Group. Each of our Group and the Remaining DDIHL Group will have its own account and book keeping records and internal control system separated from each other.

It is anticipated that the Remaining DDIHL Group will continue to share certain administrative support functions such as provision of office facilities, utilities and equipment support, cleaning services, administrative support and information technology system and technical training support services which will remain with our Group and will be provided to the Remaining DDIHL Group. The information system support services include the sharing of email address and the technical support services. Our Directors believe that the provision of these administrative support services will not prevent the Remaining DDIHL Group from operating independently of our Group (or vice versa). We are instructed that both the Remaining DDIHL Group and our Group envisage it would be able to retain or source such administrative services from outside our Group. However, this is not the preference of either our Company or DDIHL given that our Company will remain a consolidated subsidiary of DDIHL.

Therefore, save for the sharing of administrative support services as mentioned above, our Group has been and will, upon Listing, be administratively independent from the Remaining DDIHL Group.

### **Physical locations of office premises**

Our Group rents office space for our operations in Hong Kong and Shanghai, the PRC from the Remaining DDIHL Group. Our Directors are of the view that such existing office premises can easily be replaced by other comparable premises with comparable rentals, without any material disruption to the operations of our Group.

### **Continuing connected transactions between our Group and the Remaining DDIHL Group**

As DDIHL will own [REDACTED]% interest in our Company after the Spin-off and Mr. Tjia, directly and indirectly (through the company owned by him, Sparta Assets Limited), will own approximately [REDACTED]% interest in our Company. Thus, our Company will be a connected person of DDIHL by virtue of Rule 14A.17 of the Listing Rules such that our Company is a non-wholly-owned subsidiary of DDIHL where DDIHL's connected person (being Mr. Tjia and its associates (as defined in the Listing Rules)) is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of our Company.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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As the Controlling Shareholder upon the Spin-off, DDIHL will also be a connected person of our Company after the Spin-off. Accordingly, transactions between our Group and the Remaining DDIHL Group are expected to constitute connected transactions of our Company and DDIHL for the purpose of Chapter 20 of the GEM Listing Rules and Chapter 14A of the Listing Rules, respectively.

Upon Listing, save for the leasing of certain office space by our Company from the Remaining DDIHL Group in Hong Kong and Shanghai, the PRC, as well as the provision of certain administrative support services such as cleaning services and information technology support services by our Group to the Remaining DDIHL Group which will exempt constitute continuing connected transactions as stated in the section headed “Connected transactions” in this document, it is not expected that there will be any continuing connected transactions of our Group with the Remaining DDIHL Group upon Listing. Our Directors consider that these exempt continuing connected transactions will not constitute material reliance by our Group on the Remaining DDIHL Group. In any event, after Listing, our Company and DDIHL will comply with the GEM Listing Rules and the Listing Rules respectively, in relation to any connected transactions it may enter into in order to safeguard the interests of the minority shareholders of our Company and DDIHL respectively.

The essence of the regime identified above is that all of the commercial transactions between the Remaining DDIHL Group and our Group would continue to be operated on arm’s length commercial terms and will be capable of being satisfactorily monitored by the management of our Group and the Remaining DDIHL Group.

On the basis of the arrangements and reasons described above, our Directors are of the view, and the Sponsor concurs, that each of the Remaining DDIHL Group and our Group will be managed and will operate independently of each other in the interests of their respective shareholders as a whole.

### **EXCLUDED BUSINESSES**

(1) *10% non-controlling passive investment interest in ZCIGC*

As at the Latest Practicable Date, DDIHL held an indirect 10% non-controlling passive investment interest in ZCIGC which it held through another associated company that it has 10% interest (thus, DDIHL had 1% effective interest in ZCIGC), with the remaining 90% interest held by three Independent Third Parties. ZCIGC is principally engaged in the business of, among others, construction, property development, manufacturing and investment holdings. As at the Latest Practicable Date, DDIHL has no involvement in the day to day business operations of ZCIGC and does not have management control over ZCIGC as it only has a board seat and does not control the majority of the board of directors of ZCIGC. The carrying amount of investment in ZCIGC amounted to approximately HK\$10.1 million (net of impairment loss of approximately HK\$6.4 million). Such an investment is treated as “available-for-sale investment” in DDIHL’s financial statements, being an investment in equity securities which are designated as available for sale financial assets. For the years ended 31 March 2013 and 2014, DDIHL received a dividend income of approximately HK\$0.4

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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million and HK\$0.8 million from ZCIGC. Such a dividend income represented approximately 0.2% and 0.5% of the Remaining DDIHL Group’s revenue for the years ended 31 March 2013 and 2014. For the reasons set out below, the business of ZCIGC is clearly delineated and DDIHL does not regard ZCIGC and our Company as directly competing with each other:

- (i) **Different nature of business:** ZCIGC has a variety of businesses including construction, property development, manufacturing and investment holdings in China, Hong Kong and other parts of the world, while our Group is only engaged in the Construction and Engineering Contracting Business in the PRC and Hong Kong.
- (ii) **Independent management:** Save for Mr. Tjia who is a director of ZCIGC who is not involved in the day to day operations of ZCIGC, ZCIGC and our Group do not have common directors and senior management.
- (iii) **Independent operations:** ZCIGC and our Company operate independently. Save for certain investment by the Remaining DDIHL Group with ZCIGC in equipment leasing business by way of joint venture and the award of a tender in Hong Kong from a subsidiary of ZCIGC to our Group recently, there were no business dealings between ZCIGC and our Company for the years ended 31 March 2013 and 2014.

Due to the reasons that (i) DDIHL does not have management control over ZCIGC; (ii) the different nature of business; (iii) DDIHL does not have majority interest (but only an insignificant effective interest of 1%) in ZCIGC; and (iv) the transfer of the interest in ZCIGC would trigger the rights of first refusal by the other two shareholders of ZCIGC, which renders any such proposed disposal not commercially practicable, DDIHL does not consider the business of ZCIGC as a whole fits into the operations of our Group at the present stage and there is no strategic value to our Group to have a non-controlling interest in ZCIGC. As such, DDIHL does not intend to include its investment interests in ZCIGC in our Group. In accordance with the Listing Rules, if such intention changes, DDIHL will disclose such information by way of announcement once it becomes aware of such change.

(2) *100% interest in Deson Innovative Limited (“DIL”).*

The Remaining DDIHL Group established DIL as an associated company with an Independent Third Party on 27 August 2001. On 12 August 2011, the Remaining DDIHL Group acquired all the remaining interest in DIL from the Independent Third Party and DIL became a wholly-owned subsidiary of the Remaining DDIHL. DIL is mainly engaged in the business of trading of certain brands of sophisticated home security and automation products (which DIL has non-exclusive distributorship in Hong Kong, PRC and Macau). For the years ended 31 March 2013 and 2014, DIL’s revenue was approximately HK\$11.0 million and 13.7 million respectively, represented approximately 4.4% and 8.7% of the revenue of the Remaining DDIHL Group. DIL’s net loss after taxation for the year ended 31 March 2013 was approximately HK\$0.9 million and net profit after taxation for the year ended 31 March 2014 was approximately HK\$0.6 million, represented approximately Nil and 0.5% of the profit after taxation of the Remaining DDIHL Group. For the years ended 31 March 2013 and 2014, the net liabilities value of DIL were approximately HK\$4.4 million and HK\$3.7 million respectively.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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As part of the after-sale services and incidental to its main trading business, DIL may be required to provide related installation and maintenance services. On the other hand, our Group, as part of its electrical and mechanical contracting business, is also engaged in the installation of CCTV security and communication system which does not include the brands of products that are sold by DIL. However, due to difference in the core business of DIL, being trading of sophisticated home security and automation products, which is different from the nature of business of our Group, for the reason set out below, the business of DIL is clearly delineated and DDIHL does not regard DIL and our Group as directly competing with each other:

- (i) **different core business:** the core business of DIL is trading of sophisticated home security and automation products. DIL provides installation and maintenance services only as after-sales services, which represents a relatively insignificant portion of the revenue of DIL. On the other hand, our Group is engaged in the Construction and Engineering Contracting Business which may include installation of any brands of CCTV security and communication system;
- (ii) **different customers:** DIL has different customers group which is different from our Company. The customers of DIL are mainly home automation system distributors and system integrators while the customers of our Group are mainly government departments and building main contractors. As part of the after-sale services and incidental to its main trading business, DIL may be required to provide related installation and maintenance services to these home automation system distributors and system integrators and there is no overlap with our Group’s customers;
- (iii) **independent management:** Save for Mr. Tjia, who is a director of DIL but is not involved in the day-to-day business of DIL, DIL and our Group do not have common directors and senior management; and
- (iv) **independent operations:** DIL and our Group operate independently. There were no business dealings between DIL and our Group for the years ended 31 March 2013 and 2014.

Due to the reasons that (i) the different nature of business of DIL from that of our Group; (ii) the transfer of shares in DIL to our Group might affect the distributorship right as it would be a change of control event that entitles the counterparty to terminate the distributorship agreement, which renders any such disposal not commercially practicable; and (iii) the required expertise and employee and management teams of DIL reside in the Remaining DDIHL Group, DDIHL does not consider the business of DIL as a whole fits into the operations of our Group at the present stage. As such, DDIHL does not intend to include such interest in DIL in our Group. In accordance with the Listing Rules, if such intention changes, DDIHL will disclose such information by way of announcement once it becomes aware of such change.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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DDIHL may or may not consider injecting (i) the passive investment in ZCIGC; and/or (ii) the entire interest in DIL in our Company in the future. It would be a commercial decision for our Group, taking into account all the circumstances from time to time. Such injection may or may not take place. There is no particular pre-set circumstance under which DDIHL will or will not inject such interests in our Group. DDIHL considers it is immature at this stage to pre-set any criteria under which it should consider such an offer to our Group, without limiting its flexibility to reject such offer.

Any such injection, if proposed, will be subject to arm’s length negotiation between DDIHL and our Group. For so long as DDIHL remains a controlling shareholder of our Company, if an offer is made by DDIHL in the future to inject its interest in ZCIGC and/or DIL to our Company, the independent non-executive Directors will be invited to consider and decide on, without attendance of the non-executive Directors nominated by DDIHL or other executive Directors (except as invited by the independent non-executive Directors to assist them), whether to accept such offer. Any such offer, if accepted, will also be required to comply with Chapter 14A of the Listing Rules or Chapter 20 of the GEM Listing Rules including, where applicable, the announcement, reporting and independent shareholders’ approval requirements of those rules.

### **NON-COMPETITION AGREEMENT**

To eliminate or reduce the prospect of conflicts of interests between our Group and the Remaining DDIHL Group, our Company and DDIHL propose to enter into a Non-competition Agreement to the effect that, at any time during which our Shares are listed on GEM and for so long as DDIHL and its associate together hold 30% (or such other amount as may from time to time be deemed to constitute control pursuant to the Takeovers Code) or more of the voting power in general meetings of our Company:

- (a) DDIHL will not, unless otherwise agreed in writing by our Company:
  - (i) and will procure that each of its associates (including the Remaining DDIHL Group) will not engage, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than as a direct or indirect Shareholder or shares of our subsidiaries), partner, agent or otherwise, in any Restricted Business within the Territory without our Company’s prior consent;
  - (ii) solicit, interfere with or endeavour to entice away from our Group any firm, company or organisation who to its knowledge is from time to time or has at any time within the immediate past two years before the date of the document been a customer or supplier of our Group;
  - (iii) at any time employ any person who has been a director, manager, employee of or consultant to our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to our Group’s business; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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- (iv) directly or indirectly solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to our Group’s business or cease to deal with our Group or reduce the amount of business which the person would normally do with our Group.
  
- (b) “**Restricted Business**” would be defined as the construction and engineering contracting business, as a contractor, interior design, fitting-out, renovation works, as well as the provision of electrical and mechanical engineering services.
  
- (c) The “**Territory**” would extend to Hong Kong, the PRC and Macau.
  
- (d) In the event that any opportunity is made available to DDIHL to invest in any independent third party business which is engaged in the Restricted Business within the Territory (an “**Investment Opportunity**”), DDIHL will use its best efforts to procure that such Investment Opportunity is first referred to our Group in the following manner:
  - (i) DDIHL is required to, and will procure its subsidiaries (other than any members of our Group) to, refer, or to procure the referral of, the Investment Opportunity to our Group, and shall as soon as possible give written notice to our Group of any Investment Opportunity containing all information reasonably necessary for our Group to consider whether (i) such Investment Opportunity would constitute competition with our business; and (ii) it is in the interest of our Group to pursue such Investment Opportunity (including, but not limited to, the nature of the Investment Opportunity and the details of the investment or acquisition costs) (the “**Offer Notice**”).
  
  - (ii) After receipt of the Offer Notice, an independent board committee comprising all of our INEDs will consider the Investment Opportunity. When considering whether or not to pursue an Investment Opportunity, the independent board committee of our Company will consider whether the relevant business opportunities are expected to present a sustainable level of profitability, accord with the then current development strategy of our Group, and in other respects would be in the best interests of our Shareholders as a whole. The independent board committee of our Company may appoint an independent financial adviser or other professional advisers at our cost to advise it in respect of the Investment Opportunity. DDIHL will provide all information reasonably required by such independent board committee, independent financial adviser and/or other professional advisers to assist them in their assessment of the Investment Opportunity. The independent board committee of our Company will have 28 calendar days (or if an independent financial adviser and/or other professional advisers are appointed, 42 calendar days) (or in each case, such longer period of time as may be reasonably requested by the independent board committee) since the date of the Offer Notice to consider whether the Investment Opportunity should be pursued. The independent board committee shall notify DDIHL in writing of its decision to pursue or not to pursue the Investment Opportunity.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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- (iii) DDIHL will be entitled to pursue the Investment Opportunity only if (i) DDIHL has received a notice from the independent board committee of our Company declining the Investment Opportunity and confirming that such Investment Opportunity would not constitute competition with our business, or (ii) DDIHL has not received such notice from the independent board committee of our Company within the period of time specified in (ii) above from our Company’s receipt of the Offer Notice.
- (iv) DDIHL has undertaken that, if our Company decides not to pursue the Investment Opportunity and DDIHL and/or its subsidiaries (other than any members of our Group) are entitled to pursue the Investment Opportunity, they will grant our Group or procure DDIHL’s subsidiaries (other than any members of our Group) to grant our Company an option to acquire any of new business pursuant to the Investment Opportunity. The exercise of such option is subject to our Company’s corporate governance requirements. In the event that DDIHL or any of its subsidiaries (other than any members of our Group) intend to sell, assign or in any way dispose to a third party any new business pursuant to the Investment Opportunity, the seller will first offer to our Group the right to acquire such new business. None of DDIHL or its subsidiaries (other than any members of our Group) may proceed with the sale, assignment or otherwise disposal of such new business pursuant to the Investment Opportunity to any third party, unless the terms of sale, assignment or disposal are no more favourable than those offered to our Company, following the rejection to acquire such new business by our Company.
- (e) The restrictions which DDIHL has agreed to undertake, as mentioned above, do not apply to the following:
  - (i) the Restricted Business conducted through having, directly or indirectly, any interests in the shares of any members of our Group; or
  - (ii) the business conducted by ZCIGC, where DDIHL does not have management control or the right to appoint any representative of the board of directors of ZCIGC;
  - (iii) the business conducted by DIL where the related installation and maintenance services relating to home security and automation products are provided by DIL as after-sales services and exclusively for relevant brands of home security and automation products that it sells under distributorship;
  - (iv) DDIHL or any of its associates holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Business (a “**Subject Company**”) provided that such shares or securities are held for investment purposes and are, or listed on any internationally recognised stock exchange and:
    - (A) the aggregate equity interest or number of shares held by DDIHL and its associates are less than 20% of the issued capital or issued shares of the Subject Company; and

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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(B) do not confer rights to be involved directly or indirectly with the operations of the Subject Company such that DDIHL and its associates do not have representative in the board or management of the Subject Company,

so that the Remaining DDIHL Group is not able to assert any influence over the Subject Company under any accounting treatment and/or control under the GEM Listing Rules and/or the Takeovers Code on such Subject Company.

### **Confirmation by our Directors and Substantial Shareholder**

None of our Directors, Substantial Shareholder and their respective close associates was, as at the Latest Practicable Date, interested in any businesses, which compete, or are likely to compete, directly or indirectly, with our businesses and which would otherwise require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

### **CORPORATE GOVERNANCE MEASURES ON POTENTIAL CONFLICT OF INTEREST**

Our Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including INEDs) so that there is a strong element on the Board which can effectively exercise independent judgment. Our Company is also committed to the view that the INEDs should be of sufficient calibre and number for their views to carry weight.

DDIHL has also undertaken to provide an annual confirmation to our Company confirming that it has not breached the terms of the Non-competition Agreement (including without limitation that it has offered any Investment Opportunity to our Company as and when required under the Non-competition Agreement), and to provide all information necessary for the annual review by the INEDs on the enforcement of the Non-competition Agreement. DDIHL will make an annual declaration on compliance with the undertaking under the Non-competition Agreement in the annual report of our Company.

To ensure compliance with the terms of the Non-competition Agreement and to improve transparency, our Company has put in place the following procedures for the purpose of monitoring the due compliance by DDIHL with the Non-competition Agreement:

- as part of our internal control system, we will maintain a register of all opportunities/transactions arising from the implementation of the Non-competition Agreement;
- our assistant financial controller will assume the role as an internal audit officer. He will prepare an internal audit report at least once a year, which will include the review of the implementation and compliance of the Non-competition Agreement;
- we will set out an Internal Control Committee, comprising members of our Audit Committee as well as the internal audit officer. Our internal control committee, as part of its review of internal audit report at least once a year, will review the internal audit reports on the implementation and compliance of the Non-competition Agreement to ascertain that

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER**

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the terms of the Non-competition Agreement have been complied with. The review will include examination of supporting documents and such other data deemed necessary to the internal control committee. If a member of the internal control committee has an interest in a transaction arising from the implementation of the Non-competition Agreement, he or she is to abstain from participating in the review and approval process in relation to that transaction;

- Our Company will invite the INEDs to decide, without the attendance by the executive and non-executive Directors (except as invited by the INEDs to assist them), whether or not to take up a new Investment Opportunity referred to our Company under the terms of the Non-competition Agreement. The decision on whether to accept or decline a new Investment Opportunity, and whether to consent to DDIHL pursuing a declined Investment Opportunity must be made by a majority of the INEDs;
- Our Company will disclose decisions on matters reviewed by the INEDs and/or the internal control committee relating to the enforcement of the Non-competition Agreement (if any) in our Company’s annual report or, where our Board considers it appropriate, by way of an announcement to the public; and
- Our INEDs may engage an independent financial adviser at the expenses of our Company as they consider necessary to advise them on the terms of any such new Investment Opportunity.

Further, any transaction that is proposed between our Group and the Remaining DDIHL Group will be required to comply with the requirements of the GEM Listing Rules, including, where applicable, the announcement, reporting and independent shareholders’ approval requirements.

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## CONNECTED TRANSACTIONS

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### EXEMPTED CONNECTED TRANSACTIONS

Upon Listing, certain members of our Group will enter into the following transactions with the Remaining DDIHL Group, who are connected persons of our Company. Following the Listing Date, the transactions will be regarded as connected transactions exempted from the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules. Details of the connected persons and the transactions are set out below.

#### **Administrative Services Agreement**

(a) *Description of the transaction*

On [● 2014], Grand On Enterprise Ltd (“**Grand On Enterprise**”) (a member of the Remaining DDIHL Group) (for itself and for and on behalf of the Remaining DDIHL Group) and Deson Development, entered into an administrative services agreement (“**Administrative Services Agreement**”), pursuant to which Deson Development, as a service provider, has agreed to provide Remaining DDIHL Group certain administrative services including provision of office facilities, utilities and equipment support, cleaning services, administrative support and information system and technical training support, for a term of three years with effect from the Listing Date and ending on 31 March 2017. Our Directors understand that the Remaining DDIHL Group would be able to retain or source such administrative services from outside our Group. However, this is not the preference of either our Group or the Remaining DDIHL Group given that our Company will remain a consolidated subsidiary of DDIHL.

In consideration of provision of such administrative services, Grand On Enterprise shall pay a service fee, based on Deson Development’s actual direct and indirect cost incurred in the supply and the procuring of the supply of such services, including overheads, human and/or other resources. The annual service fee payable by Grand On Enterprise to us for each of three financial years ending on 31 March 2017 is not expected to exceed HK\$600,000. In arriving at the above annual caps, our Directors have considered the estimated costs to be incurred by Deson Development for the provision of such administrative services with reference to (i) the estimated head counts and time recorded in respect of the provision of office facilities, cleaning services, administrative support and information system and technical training support; and (ii) the estimated area to be occupied by the DDIHL Group in respect of the provision of utilities and equipment support.

Our Directors consider that the continuing connected transactions under the Administrative Services Agreement and the proposed annual service fees thereof are in the ordinary and usual course of business of our Company, on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole.

(b) *Historical transaction amounts*

The historical figures for the years ended 31 March 2013 and 2014 for this transaction incurred by the Remaining DDIHL Group were approximately HK\$444,000 and approximately HK\$515,000 respectively.

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## CONNECTED TRANSACTIONS

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(c) *GEM Listing Rules requirements*

Grand On Enterprise is an indirect wholly-owned subsidiary of Deson Development Holdings and therefore an associate of each of Deson Development Holdings, one of our substantial shareholders and DDIHL, our Controlling Shareholder. Accordingly, Grand On Enterprise is a connected person of our Company under Rule 20.07(4) of the GEM Listing Rules.

As the arrangements constitute the sharing of administrative services (which are identifiable) on a cost basis, allocated to the parties on a fair and equitable basis in compliance with Rule 20.96 of the GEM Listing Rules, the Administrative Services Agreement is exempt from the reporting, announcement, annual review and independent shareholders’ approval requirements in Chapter 20 of the GEM Listing Rules.

### **Lease of office in Hong Kong**

(a) *Description of the transaction*

Deson Development (for itself and on behalf of our Group), as tenant, and Grand On Enterprise Ltd (a member of the Remaining DDIHL Group), as landlord, entered into a tenancy agreement dated [●] 2014 (“**HK Office Tenancy Agreement**”), for the rental of certain portion of 11th Floor of Nanyang Plaza, No. 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong with an aggregate floor area of approximately 9,500 sq. ft.. The term of the tenancy is from the Listing Date to 31 March 2017, with a rental of HK\$143,000 per month payable in advance. The annual rental payable by us to Grand On Enterprise for each of the financial years ending 31 March 2017 is not expected to exceed HK\$1,716,000. In arriving at the above annual caps, our Directors have considered the prevailing market rates, namely the rental payable for similar properties to be leased by an Independent Third Party of similar locations. Peak Vision Appraisals Limited, the property valuer, has been appointed to review the HK Office Tenancy Agreement and is of the view that the rent payable under the HK Office Tenancy Agreement was at the prevailing market rent as at 30 June 2014.

Our Directors consider that the HK Office Tenancy Agreement was entered into in the ordinary course of our Group’s business and is on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole.

(b) *Historical transaction amounts and annual caps on future transaction amounts*

Since the HK Office Tenancy Agreement is a new transaction with effect from the Listing Date, there are no historical amounts for this transaction.

(c) *GEM Listing Rules requirements*

Grand On Enterprise is an indirect wholly-owned subsidiary of Deson Development Holdings and therefore an associate of each of Deson Development Holdings, one of our substantial shareholders and DDIHL, our Controlling Shareholder. Accordingly, Grand On Enterprise is a connected person of our Company under Rule 20.07(4) of the GEM Listing Rules.

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## CONNECTED TRANSACTIONS

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Since each of the percentage ratios, where applicable, calculated by reference to the GEM Listing Rules, for the HK Office Tenancy Agreement on an annual basis is expected to be less than 5% and the annual consideration is expected to be less than HK\$3,000,000, by virtue of Rule 20.74(1)(c), the continuing connected transaction contemplated thereunder is fully exempt from the reporting, announcement requirements and the independent shareholders’ approval requirements.

### Lease of office in Shanghai, the PRC

#### (a) *Description of the transaction*

Shanghai Deson, as tenant, and 華勝國際置業開發(上海)有限公司 (Hua Sheng International Real Estate Development (Shanghai) Co., Ltd.\* (“**Hua Sheng**”) (a member of the Remaining DDIHL Group), as landlord, entered into a tenancy agreement dated [●] 2014 (“**SH Office Tenancy Agreement**”), for the rental of certain portion of 上海市徐匯區百色路206號天然居會所2樓 (No. 206, Level 2, Club House of Parkview, Baise Road, Xuhui Area, Shanghai, the PRC) with an aggregate floor area of approximately 70 sq. m.. The term of the tenancy is from the Listing Date to 31 March 2017], with a rental RMB51,600 (equivalent to approximately HK\$65,000) per year payable in advance. The annual rental payable by us to Hua Sheng for each of the financial year ending 31 March 2017 is not expected to exceed RMB51,600 (equivalent to approximately HK\$65,000). In arriving at the above annual caps, our Directors have considered the prevailing market rates, namely the rental payable for similar properties to be leased by an Independent Third Party of similar locations. Peak Vision Appraisals Limited, the property valuer, has been appointed to review the SH Office Tenancy Agreement and is of the view that the rent payable under the SH Office Tenancy Agreement was at the prevailing market rent as at 30 June 2014.

Our Directors consider that the SH Office Tenancy Agreement was entered into in the ordinary course of our Group’s business and is on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole.

#### (b) *Historical transaction amounts and annual caps on future transaction amounts*

Since the SH Office Tenancy Agreement is a new transaction with effect from the Listing Date, there are no historical amounts for this transaction.

#### (c) *GEM Listing Rules requirements*

Hua Sheng is an indirect wholly-owned subsidiary of Deson Development Holdings and therefore an associate of each of Deson Development Holdings, one of our substantial shareholders and DDIHL, our Controlling Shareholder. Accordingly, Hua Sheng is a connected person of our Company under Rule 20.07(4) of the GEM Listing Rules.

Since each of the percentage ratios, where applicable, calculated by reference to the GEM Listing Rules, for the SH Office Tenancy Agreement on an annual basis is expected to be less than 0.1%, by virtue of Rule 20.74(1)(a) of the GEM Listing Rules, the continuing connected transaction contemplated thereunder is fully exempt from the reporting, announcement requirements and the independent shareholders’ approval requirements.

## **CONNECTED TRANSACTIONS**

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### **Confirmation from our Directors**

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions described in this section have been entered into in the ordinary and usual course of our businesses and are on normal commercial terms, are fair and reasonable and in the interests of our Shareholders as a whole, and that the proposed annual caps for the transactions referred to in this section are fair and reasonable, and in the interests of our Shareholders as a whole.

Our Directors currently do not expect that, immediately following the Listing, there will be any transaction which will constitute non-exempt continuing connected transactions pursuant to the GEM Listing Rules. On the basis of the above and given that there are no non-exempt continuing connected transactions upon Listing, no waiver application has been made to the Stock Exchange regarding exempting for non-exempt continuing connected transactions (as defined in the GEM Listing Rules).

We will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules should any non-exempt connected transactions occur on or after the Listing Date.

### **Confirmation from the property valuer**

Peak Vision Appraisals Limited, the property valuer, has reviewed the HK Office Tenancy Agreement and the SH Office Tenancy Agreement and confirmed that as of 30 June 2014, (i) the duration for the HK Office Tenancy Agreement and the SH Office Tenancy Agreement is within normal business practice for contracts of such types and the terms of HK Office Tenancy Agreement and the SH Office Tenancy Agreement are on normal commercial terms; and (ii) the respective rents payable for the properties under the HK Office Tenancy Agreement and the SH Office Tenancy Agreement reflect the prevailing market rates and are fair and reasonable.

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**DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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**DIRECTORS**

Our Board of Directors consists of three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth the information about our Directors:

Name	Age	Present position	Responsibility	Date of appointment as a Director	Date of joining our Group
<b>Executive Director</b>					
Mr. Keung Kwok Cheung (姜國祥)	56	Chief executive officer, executive Director, compliance officer  Member of the nomination and remuneration committees	Overall corporate strategy and daily operations of our Group, including business development and overall management	18 July 2014	1 March 1989
Mr. Kwok Koon Keung (郭冠強)	46	Executive Director	In charge of building and fitting out works division of our Group, responsible for the planning and coordination of projects, which covers the coordination of engineering resources, progress monitoring and work performance	25 July 2014	12 February 1996
Mr. Lo Wing Ling (羅永寧)	54	Executive Director	In charge of the electrical and mechanical engineering division of our Group, responsible for the planning and co-ordination of projects, which cover the coordination of engineering resources, progress monitoring and work performance	25 July 2014	19 August 2000

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**DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Name	Age	Present position	Responsibility	Date of appointment as a Director	Date of joining our Group
<b>Non-executive Director</b>					
Mr. Tjia Boen Sien (謝文盛)	70	Chairman, non-executive Director  Member of the nomination and remuneration committees	Consultative role in matters concerning our Group and not day to day management	18 July 2014	1 March 1988
<b>Independent non-executive Director</b>					
Mr. Cheung Ting Kee (張廷基)	46	Independent non-executive Director  Member of the audit, remuneration, nomination and internal control committees	Providing independent advice to the Board in areas including conflict of interests, strategy, performance, resources, standard of conduct of our Company	[mth/yr]	[mth/yr]
Mr. Ong King Keung (王競強)	38	Independent non-executive Director  Chairman of the audit and internal control committees and member of the audit, remuneration and nomination committees	Providing independent advice to the Board in areas including conflict of interests, strategy, performance, resources, standard of conduct of our Company	[mth/yr]	[mth/yr]
Mr. Lee Tho Siem (李多森)	74	Independent non-executive Director  Chairman of the remuneration and nomination committees and member of the audit and internal control committees	Providing independent advice to the Board in areas including conflict of interests, strategy, performance, resources, standard of conduct of our Company	[mth/yr]	[mth/yr]

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### Executive Directors

**Keung Kwok Cheung** (姜國祥), aged 56, was appointed as our Director on 18 July 2014 and was re-designated as our chief executive officer, executive Director, compliance officer and member of both the remuneration and nomination committees on [●] 2014 prior to Listing. Mr. Keung is primarily in charge of our Group’s overall corporate strategy and daily operations of our Group, including business development and overall management. He is the Technical Director and an Authorised Signatory for Deson Development as Registered General Building Contractor with the Building Department of the HK Government since 1999.

Based on when he first joined our Group, Mr. Keung has over 25 years of experience in the fields of civil, structural and building engineering and in the management of large-scale projects. Prior to the Spin-off, Mr. Keung was primarily responsible for the engineering and contracts departments of the DDIHL Group and responsible for project management, feasibility studies, budgetary control, business strategies development and liaise with government departments and clients. He first joined the DDIHL Group as an assistant project manager in March 1989 and was promoted to contracts administrator in February 1991, later as contracts manager in November 1993 and assistant general manager in June 1994. On 20 November 1998, he was appointed as an executive director of DDIHL (Main Board, stock code: 00262), which is our Controlling Shareholder. He will resign as an executive director of DDIHL prior to Listing.

Mr. Keung was awarded with an Associateship in Civil and Structural Engineering from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1982 and graduated from the University of Macau (formerly known as University of East Asia, Macau) with the Master of Business Administration in January 1991. He was admitted as a fellow member of The Hong Kong Institute of Directors in September 2004.

Mr. Keung was a director of the following companies, which were dissolved or wound-up (but not due to member’s voluntary winding-up) with details as follows:

<b>Name of company</b>	<b>Principal business activity immediately before dissolution</b>	<b>Date of dissolution or winding-up</b>	<b>Details</b>
Fitness Concept International Holdings Limited	Investment holding	30 June 2005	This was a Cayman Islands incorporated company. Mr. Keung confirmed that it was solvent and inactive at the time of such company’s application to being struck off from the registrar of companies in the Cayman Islands and subsequently dissolved.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Name of company	Principal business activity immediately before dissolution	Date of dissolution or winding-up	Details
W & D Joint Venture Limited	Never carried on/ceased business	19 December 2008	These were Hong Kong incorporated companies de-registered under section 291AA of the Predecessor Companies Ordinance and accordingly dissolved upon de-registration <sup>(Note 1)</sup> .
Leadtrade Development Limited		15 November 2013	
Billion Hope Holdings Limited (“ <b>Billion Hope</b> ”)	Contracting works in building industry	2 February 2010	This was a Hong Kong incorporated company, which was compulsory wound-up by our subsidiary, Deson Development <sup>(Note 2)</sup> .

*Notes:*

- (1) Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of such company agreed to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.
- (2) Billion Hope was a joint venture company owned as to approximately 70% by Deson Development and 30% by a third party and its principal business was performing certain contracting works. Due to the breaking down of relationship with the joint venture partner, Deson Development paid certain suppliers of Billion Hope directly on behalf of Billion Hope when it was unable to and eventually, after completion of a project, Deson Development made a petition in 2005 to the courts of Hong Kong for the compulsory winding-up of Billion Hope in order to recover the repayment of such unpaid amounts owed to Deson Development by Billion Hope.

Mr. Keung confirmed that there is no wrongful act on his part leading to the above dissolution and winding-up of the companies and he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions and winding-up of these companies.

**Kwok Koon Keung** (郭冠強), aged 46, was appointed as our Director on 25 July 2014 and was re-designated as our executive Director on [●] 2014 prior to Listing. Mr. Kwok is primarily responsible for building and fitting out works division of our Group and further responsible for the

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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planning and coordination of projects, which covers the coordination of engineering resources, progress monitoring and work performance. Prior to the Spin-off, Mr. Kwok was the contracts manager of our Group and was previously in charge of the contract department and was responsible for liaison with architects, designers and consultants, preparation of tender and payment application, estimation of cost, valuation of variations and settlement of final account. Based on when he first joined our Group, Mr. Kwok has over 18 years of experience in the building industry. He joined the DDIHL Group as a quantity surveyor in February 1996 and was promoted to senior quality surveyor in March 1997, and later as deputy contracts manager and contracts manager in July 2002 and May 2003 respectively.

Mr. Kwok graduated from the London South Bank University (formerly known as South Bank University) with a Bachelor of Science degree with distinction in June 1992. He is a professional associate of The Royal Institution of Chartered Surveyors since November 1997.

**Lo Wing Ling (羅永寧)**, aged 54, was appointed as our Director on 25 July 2014 and was re-designated as our executive Director on [●] 2014 prior to Listing. Mr. Lo is in charge of the electrical and mechanical engineering division of our Group, responsible for the planning and co-ordination of projects, which cover the coordination of engineering resources, progress monitoring and work performance. Based on when he first joined our Group, Mr. Lo has over 14 years of experience in environmental engineering and building service work. Mr. Lo joined our Group in August 2000 as the director of Kenworth Engineering and prior to the Spin-off, he was in charge of the engineering division of the DDIHL Group. He is responsible for planning and co-ordination of projects, which cover the co-ordination of engineering resources, progress monitoring and work performance. Mr. Lo is the Technical Director and an Authorised Signatory for Kenworth Engineering as a Registered Specialist Contractor (Ventilation) with the Building Department of the HK Government since 2001.

Mr. Lo graduated from the University of Hong Kong with a Bachelor of Science degree in Engineering in November 1981 and through part-time studies, graduated from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong) with a Bachelor of Arts degree in Business Studies in November 1990. He has also studied as an external student and obtained a Master of Science degree in Environmental Management from the University of London in December 2003.

### **Chairman and non-executive Director**

**Tjia Boen Sien (謝文盛)**, aged 70, was appointed as our Director on 18 July 2014 and was re-designated as our chairman, non-executive Director and member of both the remuneration and nomination committees on [●] 2014 prior to Listing. Based on when he first founded our Group, he has over 26 years of experience in the building industry in the PRC and Hong Kong. Mr. Tjia is one of the co-founders of our Group. He will remain as an executive Director, Managing Director and Deputy Chairman of DDIHL after the Listing and is our Substantial Shareholder. Mr. Tjia is primarily responsible for a consultative role in matters concerning our Group and will not be involved in the day-to-day management of our Group.

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**DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Mr. Tjia graduated from chemistry studies at the Huaqiao University (華橋大學) in the PRC in July 1966. He was admitted as member of The Chartered Institute of Building in November 1996 and is a professional member of The Royal Institution of Chartered Surveyors since October 2002. Mr. Tjia previously served as the vice chairman and honorable member of Zhan Tian You Civil Engineering Science and Technology Development Fund Management Committee (詹天佑土木工程科學技術發展基金管理委員會).

Mr. Tjia was a director of the following companies, which were dissolved or wound-up (but not due to member’s voluntary winding-up) with details as follows:

<b>Name of company</b>	<b>Principal business activity immediately before dissolution</b>	<b>Date of dissolution or winding-up</b>	<b>Details</b>
Fitness Concept International Holdings Limited	Investment holding	30 June 2005	This was a Cayman Islands incorporated company. Mr. Tjia confirmed that it was solvent and inactive at the time of such company’s application to being struck off from the registrar of companies in the Cayman Islands and dissolved.
W & D Joint Venture Limited	Never carried	19 December 2008	These were Hong Kong incorporated companies de-registered under section 291AA of the Predecessor Companies Ordinance and accordingly dissolved upon de-registration.
Deson - IEE Limited	on/ceased	17 July 2009	
Deson - IES Engineering Limited	business	17 July 2009	
Bless Honour Limited		31 July 2009	
Capital Mind Securities Limited		18 June 2010	
Pacific Chest Limited		20 August 2010	
Lucky Pacific (Asia) Development Limited		3 May 2013	
Lucky Pacific Industries Limited		3 May 2013	
Lucky Pacific (Asia) Development Limited		4 May 2013	
Leadtrade Development Limited		15 November 2013	
Link Systems Limited		4 July 2014	

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Name of company	Principal business activity immediately before dissolution	Date of dissolution or winding-up	Details
健逸企業管理顧問(深圳)有限公司 (Jianyi Enterprise Management Consultation (Shenzhen) Co., Ltd.*)	Management consultation services	19 November 2012	This was a PRC established limited liabilities company, which is a wholly foreign-owned enterprise. It was dissolved upon the expiry of the operation term as set out in its business certificate.
Billion Hope Holdings Limited (“Billion Hope”)	Contracting works in building industry	2 February 2010	This was a Hong Kong incorporated company, which was compulsory wound-up by our subsidiary, Deson Development <sup>(Note 2)</sup> .

*Notes:*

- (1) Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of such company agreed to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.
- (2) Billion Hope was a joint venture company owned as to approximately 70% by Deson Development and 30% by a third party and its principal business was performing certain contracting works. Due to the breaking down of relationship with the joint venture partner, Deson Development paid certain suppliers of Billion Hope directly on behalf of Billion Hope when it was unable to and eventually, after completion of a project, Deson Development made a petition in 2005 to the courts of Hong Kong for the compulsory winding-up of Billion Hope in order to recover the repayment of such unpaid amounts owed to Deson Development by Billion Hope.

Mr. Tjia confirmed that there is no wrongful act on his part leading to the above dissolutions and winding-up of the companies and he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions and winding-up of these companies.

### Independent non-executive Directors

**Cheung Ting Kee** (張廷基), aged 46, was appointed as our independent non-executive Director and member of our remuneration, nomination, audit and internal control committees on [●] 2014 prior to Listing. Mr. Cheung has over 19 years of working experience in the securities industry including equity research, equity sales, fund management and corporate finance. Mr. Cheung is currently the

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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sole director and responsible officer of a Hong Kong company being a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO and also a director of another Hong Kong company licenced to carry on business as a money lender in Hong Kong.

Mr. Cheung obtained a Bachelor of Business Administration degree from Ohio University in March 1994 and a Master in Professional Accounting from The Hong Kong Polytechnic University in November 2002.

**Ong King Keung (王競強)**, aged 38, was appointed as our independent non-executive Director and chairman of our audit and internal control committees and member of our remuneration and nomination committees on [●] 2014 prior to Listing. He has over 14 years of experience in auditing and accounting industry. Mr. Ong is currently the company secretary and chief financial officer of Wonderful Sky Financial Group (Holdings) Limited (Main Board, stock code: 01260). Mr. Ong obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1998 and a Master of Science degree in Finance from the City University of Hong Kong in November 2007. Mr. Ong has been a fellow of the Association of Chartered Certified Accountants since October 2007 and a fellow of the Hong Kong Institute of Certified Public Accountants since June 2010.

Mr. Ong serves as an independent non-executive director of the following companies listed on the Main Board:

<b>Name of company</b>	<b>Stock code</b>	<b>Position</b>	<b>Length of service</b>
China Water Affairs Group Limited	00855	Independent non-executive director	30 March 2007 to now
China Environmental Energy Investment Limited	00986	Independent non-executive director	1 March 2013 to 1 September 2014

**Lee Tho Siem (李多森)**, aged 74, was appointed as our independent non-executive Director and chairman of our remuneration and nomination committees and member of our audit and internal control committees on [●] 2014 prior to Listing. He has over 38 years of experience in the banking industry. He worked in Hua Chiao Commercial Bank Limited from September 1963 to November 2001 and was appointed as a director and acting general manager in January 2000. He served as an independent non-executive director of United Metals Holdings Limited (now known as CNNC International Limited) (Main Board, stock code: 2302) between January 2003 to December 2008.

### **Disclosure of relationships and as required under Rule 17.50(2) of the GEM Listing Rules**

Except for Mr. Tjia being one of our Substantial Shareholders, each of our Directors and senior management are independent from and not related to any other Director, senior management or our Substantial Shareholders.

Save as disclosed above and elsewhere in this document, each of our Directors confirms with respect to him that: (i) apart from our Company, he 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) save as disclosed in the section “Statutory and general information — C. Further

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**DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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information about our Directors and Substantial Shareholders” in Appendix IV to this document, he does not have any interests in the Shares within the meaning of Part XV of the SFO; (iii) there is no other information that should be disclosed for him pursuant to Rule 17.50(2) of the GEM Listing Rules; and (iv) 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 forth the information concerning our senior management:

<b>Name</b>	<b>Age</b>	<b>Present position</b>	<b>Responsibility</b>	<b>Date of appointment as a senior management</b>	<b>Date of joining our Group</b>
Mr. Chan Chi Kwong (陳志光)	51	Senior project manager	Senior project manager and supervise our Group’s construction projects in Hong Kong	March 2003	16 July 1992
Mr. Yeung Yam Chi (楊蔭之)	52	Senior project manager	Senior project manager and supervise our Group’s construction projects in Hong Kong and the PRC	August 2004	16 April 1994
Mr. Lee Kai Ming (李啟明)	55	Senior project manager	Senior project manager and supervise our Group’s construction projects in Hong Kong	January 2014	30 July 1997
Mr. Tong Ka Ming, Patrick (唐家明)	48	Financial controller and company secretary	Accounting, finance, listing compliance and company secretarial functions of our Group	July 2014	7 July 2014
Ms. Li Ngan Mei, May (李銀美)	53	Administration manager	Administrative and human resources matters of our Group	December 1988	1 December 1988

**Chan Chi Kwong** (陳志光), aged 51, is a senior project manager of our Group. Based on when he first joined our Group, he has over 22 years of experience in the field of civil and structural engineering. Prior to the Spin-off, Mr. Chan joined our Group in July 1992 as a project coordinator, and was promoted as an assistant project manager and a senior project engineer in June 1995 and November 1993 respectively. He was later further promoted as a project manager in April 1996 and as a senior project manager in March 2003. He is responsible for our Group’s construction projects in Hong Kong. He is an Authorised Signatory for Deson Development as Registered General Building Contractor with the Building Department of the HK Government since 1999. Mr. Chan obtained a Bachelor of Science degree in Construction Management from the University of Wolverhampton in October 2003. He was admitted as an associate of The Chartered Institute of Building in January 1995.

**DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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During the three years immediately preceding the date of this document, Mr. Chan has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

**Yeung Yam Chi (楊蔭之)**, aged 52, is a senior project manager of our Group. Based on when he first joined our Group, Mr. Yeung has over 20 years of experience in the field of civil and structural engineering, interior fitting out and decoration works. Prior to the Spin-off, Mr. Yeung joined our Group in April 1994 as an assistant project manager and was promoted as a project manager in March 1998 and as a senior project manager in August 2004. He is responsible for the Group’s construction projects in Hong Kong and the PRC, in particular, progress monitoring and quality assurance, site co-ordination, submission of government documents, liaison with clients, architects, sub-contractors and consultants and also provide technical review of the sub-contractors’ standard and qualification. Mr. Yeung is an Authorised Signatory for Deson Development as a Registered General Building Contractor with the Building Department of the HK Government since 1999. Mr. Yeung obtained a Diploma in Civil Engineering from Hong Kong Baptist College in July 1985 and a Master of Engineering degree from The University of Sheffield in January 1987.

During the three years immediately preceding the date of this document, Mr. Yeung has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

**Lee Kai Ming (李啟明)**, aged 55, is a senior project manager of our Group. Based on when he first joined our Group, Mr. Lee has over 17 years of experience in the field of building services and engineering. Prior to the Spin-off, he joined our Group in August 1997 as an electrical and mechanical engineer and was later transferred to Kenworth Engineering, our subsidiary, as a project manager since February 2012 and promoted as a senior project manager in January 2014. He is responsible for all our building services projects in Hong Kong. Mr. Lee is a Technical Director for Kenworth Engineering as a Registered Specialist Contractor (Ventilation) with the Building Department of the HK Government since 2001.

Mr. Lee has obtained a Higher Diploma in Mechanical Engineering and an Endorsement Certificate in Building Services from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1982 and November 1988 respectively. He has passed the Engineering Council Examination Part 2 subjects by The Engineering Council in July 1985. Mr. Lee is a member of The Chartered Institution of Building Services Engineers since February 1987 and was authorised as a chartered engineer under The Engineering Council since February 1988. He is a member of The Hong Kong Institution of Engineers since June 1991. Furthermore, Mr. Lee is registered as a Registered Professional Engineer (Building Services) with the Engineering Registration Board since April 2011.

During the three years immediately preceding the date of this document, Mr. Lee has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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**Tong Ka Ming, Patrick (唐家明)**, aged 48, is the financial controller and company secretary of our Group. Prior to the Spin-off, he joined our Group in July 2014. He is responsible for accounting, finance, listing compliance and company secretarial. He has over 22 years of experience in auditing, accounting and financial management. Prior to joining our Group, Mr. Tong served as a staff accountant in Ernst & Young between January 1992 to August 1993, as an accounting manager in Stime Watch MFG. Co. Ltd. between September 1993 to August 1995, as a deputy controller in CCA International Ltd between August 1995 to April 1997, as a chief financial officer in Arcontech Corporation between January 2000 to April 2003, as a financial controller in Artel Industries Limited between April 2004 to September 2004, as an assistant financial controller in Hong Kong Resources Holdings Company Limited (Main Board, stock code: 02882, formerly known as Ocean Grand Chemicals Holdings Limited) between March 2005 to November 2013.

Mr. Tong has obtained a Bachelor of Science degree in Business Studies from the University of Bradford in July 1990 and a Master of Commerce degree in Finance with Languages from the University of Sydney in October 1999. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since July 1995.

During the three years immediately preceding the date of this document, Mr. Tong has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

**Li Ngan Mei, May (李銀美)**, aged 53, is the administration manager of our Group. Based on when she first joined our Group, Ms. Li has over 26 years of experience in dealing with personnel and administration matters. Prior to the Spin-off, she joined our Group in December 1988 as the administration manager. She is in charge of our Group’s administrative and human resources matters including the overseeing of the administrative department, which is responsible for maintenance and renewal of our licenses, permits and qualifications. Prior to joining our Group, she served as an accounting clerk in Hop Hing Oil Factory Limited and Shun Fu Handbag Limited (信孚手袋有限公司) between September 1981 to April 1983 and May 1983 to May 1985 respectively. She later served in Wu Yi Engineering Company Limited as an administrator from June 1985 to November 1988.

Ms. Li has obtained a Secretarial Diploma from The Chinese Young Men’s Christian Association Hong Kong in May 1981.

During the three years immediately preceding the date of this document, Ms. Li has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

### **COMPANY SECRETARY**

**Tong Ka Ming, Patrick (唐家明)**, is our financial controller and company secretary. Please refer to the paragraph headed “Senior management” of this section for further information.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **COMPLIANCE OFFICER**

**Keung Kwok Cheung** (姜國祥) was appointed as the compliance officer (Rule 5.19 of the GEM Listing Rules) of our Company on 4 September 2014. Please refer to paragraph headed “Executive director” of this section for details of the qualification and experience of Mr. Keung.

### **DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION**

During the Track Record Period, the total remuneration (including salaries and allowances, discretionary bonus, contributions to pension schemes) paid by us to our Directors for the years ended 31 March 2013 and 2014 was approximately HK\$3.3 million and approximately HK\$3.9 million respectively.

The total remuneration (including salaries and bonus, allowances, pension scheme contributions) paid by us to the five highest paid individuals of our Group, including our Directors, for the years ended 31 March 2013 and 2014 was approximately HK\$4.3 million and approximately HK\$5.5 million respectively.

Under the arrangements currently in force, the aggregate remuneration and benefits in kind of our Directors paid or payable (excluding any commission or discretionary bonus) in respect of the year ending 31 March 2015 is estimated to be approximately HK\$3.1 million.

### **REMUNERATION POLICY**

Our executive Directors, non-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. We regularly review and determine the remuneration and compensation packages of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

### **COMPLIANCE ADVISER**

Our Company has appointed Kingsway Capital Limited as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise us on the following circumstances:

- (a) before the publication of any regulator announcement, circular or financial report;
- (b) where a transaction which might be notifiable or connected transaction, is contemplated including shares issues and share repurchases;

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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- (c) where our business activities, developments or results deviates from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes any enquiry to our Company under Rule 6.10 of the GEM Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the financial year ending [31 March 2017]), subject to early termination.

The compliance adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the Stock Exchange.

### **AUDIT COMMITTEE**

Our Company established an audit committee on [●] in compliance with Rule 5.28 of the GEM Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of our Group, and to develop and review the policies and procedures for corporate governance and make recommendations to the Board.

The audit committee comprises the three independent non-executive Directors, namely Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Ong King Keung. Mr. Ong King Keung is the chairman of the audit committee.

### **REMUNERATION COMMITTEE**

Our Company established a remuneration committee pursuant to a resolution of our Directors passed on [●] in compliance with Rule 5.34 of the GEM Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the remuneration committee are to review and to determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management and to establish a formal and transparent procedure for developing policy in relation to remuneration.

The remuneration committee comprises one executive Director, Mr. Keung Kwok Cheung, one non-executive Director, Mr. Tjia Boen Sien, and three independent non-executive Directors, namely Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Ong King Keung. Mr. Lee Tho Siem is the chairman of the remuneration committee.

### **NOMINATION COMMITTEE**

Our Company established a nomination committee pursuant to a resolution of our Directors passed on [●] and with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the nomination committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the appointment of our Directors and management of Board succession.

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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The nomination committee comprises one executive Director, Mr. Keung Kwok Cheung, one non-executive Director, Mr. Tjia Boen Sien, and three independent non-executive Directors, namely Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Ong King Keung. Mr. Lee Tho Siem is the chairman of the nomination committee.

### **INTERNAL CONTROL COMMITTEE**

Our Company established an internal control committee pursuant to a resolution of our Directors passed on [●].

The primary duties of the internal control committee are to ensure good corporate governance standards and practices are maintained, to review and discuss solutions to regulatory compliance and internal control matters and to review and ensure compliance with the non-competition agreement.

The internal control committee comprises the three independent non-executive Directors, namely Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Ong King Keung. Mr. Ong King Keung is the chairman of the internal control committee.

### **CORPORATE GOVERNANCE**

Our Company will comply with the Corporate Governance Code in Appendix 15 to the GEM Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report, which will be included in our annual reports upon the Listing.

## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

### SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, as at the Latest Practicable Date and immediately following the completion of the Introduction, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules:

(a) *Interests in Shares of our Company*

Name	Type of interest	As at the Latest Practicable Date		Following completion of the Introduction	
		Number of shares of par value HK\$0.10	Percentage of shareholding in our Company (%)	Number of Shares held	Percentage of shareholding in our Company (%)
Deson Development Holdings	Beneficial owner	1	100%	[REDACTED]	[REDACTED]
DDIHL	Interest in controlled corporation ( <i>Note 1</i> )	1	100%	[REDACTED]	[REDACTED]
Sparta Assets Limited	Beneficial owner	0	0%	[REDACTED]	[REDACTED]
	Interest in controlled corporation ( <i>Note 2</i> )	1	100%	[REDACTED]	[REDACTED]
Mr. Tjia	Beneficial owner	0	0%	[REDACTED]	[REDACTED]
	Interest in controlled corporation ( <i>Note 3</i> )	1	100%	[REDACTED]	[REDACTED]
HEHL	Beneficial owner	0	0%	[REDACTED]	[REDACTED]
Capital VC Limited	Interest in controlled corporation ( <i>Note 4</i> )	0	0%	[REDACTED]	[REDACTED]

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**SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS**

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Name	Type of interest	As at the Latest Practicable Date		Following completion of the Introduction	
		Number of shares of par value HK\$0.10	Percentage of shareholding in our Company (%)	Number of Shares held	Percentage of shareholding in our Company (%)
Granda Overseas Holding Co. Ltd.	Beneficial owner	0	0%	[REDACTED]	[REDACTED]
Mr. Chen Huofa	Interest in controlled corporation ( <i>Note 5</i> )	0	0%	[REDACTED]	[REDACTED]

*Notes:*

- Deson Development Holdings is a company incorporated in the BVI and wholly owned by DDIHL. DDIHL is deemed interested in the Shares beneficially owned by Deson Development Holdings.
- Sparta Assets Limited directly beneficially owned 233,290,000 DDIHL Shares, representing 42.17% of the issued share capital in DDIHL. By virtue of the SFO, Sparta Assets Limited was deemed to be interested in [REDACTED] Shares owned by DDIHL (through Deson Development Holdings).
- Sparta Assets Limited is a company incorporated in the BVI and wholly owned by Mr. Tjia. Pursuant to Note 2 above, Mr. Tjia is deemed to be interested in (i) [REDACTED] Shares that Sparta Assets Limited is deemed interested and which are held through DDIHL (through Deson Development Holdings); and (ii) [REDACTED] Shares beneficially owned directly by Sparta Assets Limited.
- HEHL is a company incorporated in the BVI and wholly owned by Capital VC Limited, a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (Main Board, stock code: 02324). By virtue of the SFO, Capital VC Limited is deemed to be interested in [REDACTED] Shares.
- Granda Overseas Holding Co. Ltd., is a company incorporated in the BVI and wholly owned by Mr. Chen Huofa. By virtue of the SFO, Mr. Chen Huofa is deemed to be interested in [REDACTED] Shares held through Granda Overseas Holding Co. Ltd..

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## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

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(b) *Interests in Shares of other members of the Group*

Name of non wholly-owned subsidiaries	Name of shareholder(s)	Percentage of shareholding in our Company (%)
Deson Construction Engineering	Sudbury Profits Limited ( <i>Note 1</i> )	14.30
Beijing Chang-de	BCEG ( <i>Note 2</i> )	30.00

*Notes:*

1. Save for its interest in Deson Construction Engineering, Sudbury Profits Limited is an Independent Third Party.
2. Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.

Save as disclosed above, as at the Latest Practicable Date, none of our Directors or chief executive of the Company is aware of any other person who will, immediately following the completion of the Introduction, have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules.

[REDACTED]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS**

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[REDACTED]

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## SHARE CAPITAL

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### SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorised and issued share capital of our Company immediately before and following the completion of the Listing:

HK\$

*Authorised share capital*

<b><u>[2,000,000,000]</u>Shares of par value HK\$0.05 each</b>	<b><u>[100,000,000]</u></b>
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*Shares issued and fully paid or credited as fully paid upon completion of the Listing*

<b><u>[350,000,000]</u>Shares of par value HK\$0.05 each</b>	<b><u>[17,500,000]</u></b>
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### ASSUMPTIONS

The above table assumes that the Listing becomes unconditional and does not take into any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates given to our Directors to allot and issue or repurchase Shares as referred to below.

### RANKING

The Shares are ordinary shares and will rank *pari passu* in all respects with all the Shares now in issue or to be issued as mentioned herein, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of Listing.

### MINIMUM PUBLIC FLOAT

Pursuant 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 issued share capital in the hands of the public (as defined in the GEM Listing Rules).

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Spin-off becomes unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Listing; and
- (b) the aggregate nominal amount of the share capital of our Company repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

## **SHARE CAPITAL**

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The allotment and issue of Shares under a rights issue, script dividend scheme or similar arrangement in accordance with the Articles do not generally require the approval of the Shareholders in general meeting and the aggregate nominal value of the Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by applicable laws or its Articles to hold its next annual general meeting; and
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our then sole Shareholder passed on [●] 2014” in Appendix IV to this document.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Spin-off becomes unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue following the completion of the Listing.

The mandate only relates to repurchases made on the Stock Exchange, or any other exchange on which the Shares are Spin-off (and which is recognised by the SFC and the Stock Exchange for this purpose), which are made in accordance with all applicable laws and requirements of the GEM Listing Rules. Further information required by the Stock Exchange to be included in this document regarding the repurchase of Shares is set out in the section headed “A. Further information about our Company and our subsidiaries — Repurchase by our Company of its own securities” in Appendix IV to this document.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by applicable laws or the Articles to hold its next annual general meeting; and

## **SHARE CAPITAL**

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- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our then sole Shareholders passed on [●] 2014” in Appendix IV to this document.

## **FUTURE PLANS**

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### **FUTURE PLANS**

Our business objectives are to achieve sustainable growth in our current business to create long-term shareholder’s value by mainly focusing on the Hong Kong and PRC markets in the near term. For a detailed description of the Group’s future plans, please refer to the section headed “Business — Corporate strategies” of this document.

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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*The following is the text of a report received from the Company’s reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. 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 Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.*

22/F, CITIC Tower,  
1 Tim Mei Avenue,  
Central, Hong Kong

[Date] 2014

The Directors  
Deson Construction International Holdings Limited  
Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information of Deson Construction International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 31 March 2013 and 2014 (the “Relevant Periods”), and the combined statements of financial position of the Group as at 31 March 2013 and 2014, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the document of the Company dated [date] (the “Document”) in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 18 July 2014. Pursuant to a group reorganisation (the “Reorganisation”) as more fully explained in the section headed “Reorganisation” to the Document, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

[As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below.] The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries or jurisdictions in which they were incorporated and/or established. Details of their financial years end and statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 March 2013 and 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**Directors’ responsibility**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**Reporting accountants’ responsibility**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

**Opinion in respect of the Financial Information**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 March 2013 and 2014, and of the combined results and cash flows of the Group for each of the Relevant Periods.

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**ACCOUNTANTS’ REPORT**

**I. FINANCIAL INFORMATION**

**(A) COMBINED STATEMENTS OF PROFIT OR LOSS**

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
<b>REVENUE</b>	5	540,226	825,379
Cost of sales		<u>(504,142)</u>	<u>(778,333)</u>
Gross profit		36,084	47,046
Other income	5	8,822	12,287
Fair value gain on investment properties		1,353	635
Administrative expenses		(35,620)	(39,468)
Other operating expenses, net		(149)	(118)
Finance costs	7	<u>(56)</u>	<u>(22)</u>
<b>PROFIT BEFORE TAX</b>	6	10,434	20,360
Income tax expense	10	<u>(3,160)</u>	<u>(4,408)</u>
<b>PROFIT FOR THE YEAR</b>		<u>7,274</u>	<u>15,952</u>
Attributable to:			
Owners of the Company	11	7,620	15,946
Non-controlling interests		<u>(346)</u>	<u>6</u>
		<u>7,274</u>	<u>15,952</u>

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**ACCOUNTANTS’ REPORT**

**(B) COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>PROFIT FOR THE YEAR</b>		<u>7,274</u>	<u>15,952</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>267</u>	<u>(55)</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Surplus on revaluation of leasehold land and buildings	14	47,292	10,944
Income tax effect	25	<u>(7,803)</u>	<u>(1,806)</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u>39,489</u>	<u>9,138</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<u>39,756</u>	<u>9,083</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>47,030</u>	<u>25,035</u>
Attributable to:			
Owners of the Company		47,345	25,029
Non-controlling interests		<u>(315)</u>	<u>6</u>
		<u>47,030</u>	<u>25,035</u>

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**ACCOUNTANTS’ REPORT**

**(C) COMBINED STATEMENTS OF FINANCIAL POSITION**

		<b>As at 31 March</b>	
	<i>Notes</i>	<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	137,696	143,850
Investment properties	15	<u>10,250</u>	<u>10,875</u>
Total non-current assets		<u>147,946</u>	<u>154,725</u>
<b>CURRENT ASSETS</b>			
Gross amount due from contract customers	16	8,682	7,563
Due from related companies	23	5,357	5,115
Due from the Remaining Group	23	920,341	943,410
Accounts receivable	17	56,635	68,906
Prepayments, deposits and other receivables	18	8,565	12,952
Pledged deposits	19	27,774	27,863
Cash and cash equivalents	19	<u>23,716</u>	<u>69,263</u>
Total current assets		<u>1,051,070</u>	<u>1,135,072</u>
<b>CURRENT LIABILITIES</b>			
Gross amount due to contract customers	16	58,222	87,845
Accounts payable	20	30,933	44,895
Other payables and accruals	21	21,334	22,607
Amount due to a non-controlling shareholder	22	1,500	1,500
Amounts due to the Remaining Group	23	762,713	793,641
Tax payable		80	1,278
Interest-bearing bank borrowings	24	<u>41,029</u>	<u>48,182</u>
Total current liabilities		<u>915,811</u>	<u>999,948</u>
<b>NET CURRENT ASSETS</b>		<u>135,259</u>	<u>135,124</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>283,205</u>	<u>289,849</u>

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**ACCOUNTANTS’ REPORT**

		<b>As at 31 March</b>	
	<i>Notes</i>	<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	24	35,805	15,117
Deferred tax liabilities	25	<u>21,006</u>	<u>22,968</u>
Total non-current liabilities		<u>56,811</u>	<u>38,085</u>
Net assets		<u>226,394</u>	<u>251,764</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	26	—	—
Reserves	27	<u>220,577</u>	<u>245,941</u>
		220,577	245,941
<b>Non-controlling interests</b>		<u>5,817</u>	<u>5,823</u>
Total equity		<u>226,394</u>	<u>251,764</u>

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ACCOUNTANTS’ REPORT

(D) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Issued capital	Property revaluation reserve	Merger reserve	Exchange fluctuation reserve	Reserve funds	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2012	—	68,469	40,000	5,055	4,444	55,248	173,216	6,313	179,529
Profit for the year	—	—	—	—	—	7,620	7,620	(346)	7,274
Other comprehensive income for the year:									
Surplus on revaluation of leasehold land and buildings, net of tax	—	39,507	—	—	—	—	39,507	(18)	39,489
Exchange differences on translation of foreign operations	—	—	—	218	—	—	218	49	267
Total comprehensive income for the year	—	39,507	—	218	—	7,620	47,345	(315)	47,030
Dividend paid to a non-controlling shareholder	—	—	—	—	—	—	—	(181)	(181)
Transfer to reserve	—	—	—	—	16	—	16	—	16
Release of revaluation reserve	—	(2,244)	—	—	—	2,244	—	—	—
At 31 March 2013 and 1 April 2013	—	105,732*	40,000*	5,273*	4,460*	65,112*	220,577	5,817	226,394
Profit for the year	—	—	—	—	—	15,946	15,946	6	15,952
Other comprehensive income for the year:									
Surplus on revaluation of leasehold land and buildings, net of tax	—	9,138	—	—	—	—	9,138	—	9,138
Exchange differences on translation of foreign operations	—	—	—	(55)	—	—	(55)	—	(55)
Total comprehensive income for the year	—	9,138	—	(55)	—	15,946	25,029	6	25,035
Transfer to reserve	—	—	—	—	335	—	335	—	335
Release of revaluation reserve	—	(3,328)	—	—	—	3,328	—	—	—
At 31 March 2014	—	111,542*	40,000*	5,218*	4,795*	84,386*	245,941	5,823	251,764

\* These reserve accounts comprise the combined reserves of HK\$220,577,000 and HK\$245,941,000 in the combined statement of financial position as at 31 March 2013 and 2014, respectively.

The reserve funds of the Group include statutory reserves required to be appropriated from the profit after tax of the Company’s subsidiaries in Mainland China under the laws and regulations of the People’s Republic of China (“PRC”). The amount of the appropriation is at the discretion of these subsidiaries’ boards of directors.

The merger reserve of the Group represents the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Reorganisation.

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ACCOUNTANTS’ REPORT

(E) COMBINED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		10,434	20,360
Adjustments for:			
Finance costs	7	56	22
Interest income	5	(177)	(192)
Reversal of unclaimed liabilities	6	—	(4,188)
Fair value gain on investment properties	15	(1,353)	(635)
Loss on disposal of items of property, plant and equipment	6	68	39
Depreciation	6	3,684	5,010
Impairment of other receivables	6	—	64
Impairment/(reversal of impairment) of accounts receivable	6	(69)	15
		<u>12,643</u>	<u>20,495</u>
Decrease/(increase) in gross amount due from contract customers		(1,827)	1,904
Increase in accounts receivable		(32,780)	(12,269)
Increase in prepayments, deposits and other receivables		(1,303)	(4,457)
Increase in gross amount due to contract customers		28,644	29,623
Increase in accounts payable		22,086	18,150
Increase in other payables and accruals		<u>2,909</u>	<u>1,593</u>
Cash generated from operations		30,372	55,039
Interest paid		(1,139)	(826)
Overseas taxes paid		<u>(1,772)</u>	<u>(1,864)</u>
Net cash flows from operating activities		<u>27,461</u>	<u>52,349</u>

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	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		177	192
Purchases of items of property, plant and equipment		(599)	(259)
Proceeds from disposal of items of property, plant and equipment		21	3
Increase in pledged deposits		<u>(80)</u>	<u>(89)</u>
Net cash flows used in investing activities		<u>(481)</u>	<u>(153)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank borrowings		70,902	27,428
Repayment of bank and other borrowings		(14,847)	(34,508)
Movement in balances with a related company, net		(7,565)	(696)
Movement in balances with the Remaining Group		(33,108)	7,649
Dividends paid to a non-controlling shareholder		<u>(181)</u>	<u>—</u>
Net cash flows from/(used in) financing activities		<u>15,201</u>	<u>(127)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		42,181	52,069
Cash and cash equivalents at beginning of year		(25,084)	17,251
Effect of foreign exchange rate changes, net		<u>154</u>	<u>(67)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>17,251</u></u>	<u><u>69,253</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents stated in the statement of financial position	19	23,716	69,263
Bank overdrafts, secured	24	<u>(6,465)</u>	<u>(10)</u>
Cash and cash equivalents as stated in the statement of cash flows		<u><u>17,251</u></u>	<u><u>69,253</u></u>

**II. NOTES TO FINANCIAL INFORMATION**

**1. CORPORATE INFORMATION**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 18 July 2014. The registered address of the Company is Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries were principally involved in the construction business, as a main contractor and decoration, as well as the provision of electrical and mechanical engineering services, mainly in Hong Kong and Mainland China and other construction related business (the “Construction Business”).

In the opinion of the directors of the Company, Deson Development Holdings Limited, a company incorporated in the British Virgin Islands is the immediate holding company of the Company, and Deson Development International Holdings Limited (“Deson”), a company incorporated in Bermuda and listed on the Main Board of the Stock Exchange, is the ultimate holding company of the Company.

For the purpose of the Financial Information, the Company and its subsidiaries are hereafter collectively referred to as “the Group”; whereas Deson and its subsidiaries, but excluding the Group, are collectively referred to as the “Remaining Group”.

Prior to the incorporation of the Company, the Construction Business was carried out by certain subsidiaries of Deson. In order to rationalise the current structure of the Group, the Company underwent the Reorganisation to acquire the companies now comprising the Group on [date]. Details of the Reorganisation are set out in the section headed “Reorganisation” to the Document.

[As at the date of this report, the Company had direct and indirect interests in its subsidiaries,] all of which are private limited liability companies (or, if incorporated outside Hong Kong, have

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**ACCOUNTANTS’ REPORT**

substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place of incorporation/ registration and business	Issued/registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
北京長迪建築裝飾工程 有限公司 (a)	PRC/ Mainland China	RMB16,000,000	Not classified	—	60	Decoration engineering
Deson Development Limited (b)	Hong Kong	HK\$20,000,100	Class A	—	100	Construction contracting and investment holding
		HK\$20,000,000	Class B	—	100	
Colton Ventures Limited (c)	BVI/ Hong Kong	US\$1	Ordinary	—	100	Investment holding
Deson Construction Engineering Limited (c)	BVI/ Hong Kong	US\$10,000	Ordinary	—	85.7	Investment holding
Deson Engineering Limited (d)	Hong Kong	HK\$10,000	Ordinary	—	100	Construction contracting
Deson Industries Limited (c)	BVI/ Hong Kong	US\$1	Ordinary	—	100	Investment holding
Deson Macau Construction Limited (c)	Macau	MOP30,000	Ordinary	—	100	Construction contracting
Foregrand Holdings Inc. (c)	BVI/ Hong Kong	US\$1	Ordinary	—	100	Investment holding
Grace Profits Investments Limited (c)	BVI/ Hong Kong	US\$1	Ordinary	—	100	Investment holding
Kenworth Group Limited (c)	BVI/ Hong Kong	US\$3	Ordinary	—	100	Investment holding
Kenworth Engineering Limited (e)	Hong Kong	HK\$54,374,140	Ordinary	—	100	Provision of electrical and mechanical engineering services
		HK\$20,000,000	Preference	—	100	
Latest Ventures Limited (c)	BVI/ Hong Kong	US\$1,000	Ordinary	100	—	Investment holding
上海迪申建築裝潢有限公司 (f)	PRC/ Mainland China	US\$800,000	Not classified	—	100	Decoration engineering

*Notes:*

- (a) This entity is registered as a Sino-foreign investment enterprise under PRC law. The financial year end of this entity is 31 December and its statutory financial statements for the years ended 31 December 2012 and 2013 were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC and were audited by 致同會計師事務所有限公司, certified public accountants registered in the PRC.
- (b) The financial year end of this entity is 31 March and its statutory financial statements for the years ended 31 March 2013 and 2014 prepared under HKFRSs were audited by Ernst & Young, Hong Kong. The holders of the non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK\$100 trillion.
- (c) No audited financial statements have been prepared for these entities since their incorporation as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.
- (d) The financial year end of this entity is 31 March and its statutory financial statements for the years ended 31 March 2013 and 2014 prepared under HKFRSs were audited by Ernst & Young, Hong Kong.
- (e) The financial year end of this entity is 31 March and its statutory financial statements for the years ended 31 March 2013 and 2014 prepared under HKFRSs were audited by Ernst & Young, Hong Kong. The holders of the preference shares have a cumulative preferential right to the company’s profits at 10% of the nominal amount of its share capital, but are not entitled to receive notice of or attend or vote at any meeting of members or any meeting of directors.
- (f) This entity is registered as a wholly-foreign-owned enterprise under PRC law. The financial year end of this entity is 31 December and its statutory financial statements for the years ended 31 December 2012 and 2013 were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC and were audited by 上海事誠會計師事務所有限公司, certified public accountants registered in the PRC.

## **2.1 BASIS OF PRESENTATION**

Pursuant to the Reorganisation as more fully explained in the section headed “Reorganisation” to the Document, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Relevant Periods on [date]. The companies now comprising the Group were under the common control of Deson before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

For the purpose of this report, the related financial information of businesses and operations historically not associated with the Construction Business of the Group has been excluded from the Financial Information throughout the Relevant Periods as such businesses and operations are distinct and identifiable businesses, which operated autonomously and were retained by the Remaining Group pursuant to the Reorganisation.

The combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of the Construction Business from the earliest date presented or since the date when the subsidiaries first came under the common control of the controlling shareholder, Deson, where this is a shorter period. The combined statements of financial position of the Group as at 31 March 2013 and 2014 have been prepared to present the assets and liabilities of the Construction Business using the existing book values from the controlling shareholder’s perspective.

Equity interests in companies now comprising the Group held by parties other than the controlling shareholder and changes therein prior to the Reorganisation are presented as non-controlling interests in equity. All intra-group transactions and balances have been eliminated on combination.

## **2.2 BASIS OF PREPARATION**

The Financial Information have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 April 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for leasehold land and buildings classified as property, plant and equipment, and investment properties, which have been measured at fair value, and is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

**2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> <sup>5</sup>
HKFRS 9, HKFRS 7 and HKFRS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> <sup>6</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i> <sup>1</sup>
HKFRS 11 Amendments	Amendments to HKFRS 11 <i>Joint Arrangements — Accounting for Acquisitions of Interests in Joint Operations</i> <sup>3</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>4</sup>
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 <i>Property, Plant and Equipment</i> and HKAS 38 <i>Intangible Assets — Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>3</sup>
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits — Defined Benefit Plans: Employee Contributions</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures of Non-Financial Assets</i> <sup>1</sup>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i> <sup>1</sup>
HK(IFRIC)-Int 21	<i>Levies</i> <sup>1</sup>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 <sup>2</sup>
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>6</sup> No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group’s results of operations and financial position.

## **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of combination and business combinations**

This Financial Information includes the financial statements of the Company and its subsidiaries now comprising the Group and excludes the financial information of businesses unrelated to the Construction Business for the Relevant Periods. As explained in note 2.1 above, the acquisition of subsidiaries and business under common control has been accounted for using merger accounting. The merger accounting involves incorporating 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 combined using the existing book value from the perspective of Deson, the controlling shareholder of the Company. No amount is recognised in respect of goodwill or the excess of the acquirer’s interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over the consideration transferred and other items at the time of common control combination.

The acquisition of subsidiaries other than those under common control has been accounted for using the acquisition method. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Except for the common control combination as mentioned above, the results of subsidiaries are combined from the date of acquisition, being the date on which the Group obtains control, and continue to be combined until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Non-controlling interests represent the equity interests in a subsidiary held by parties other than the controlling shareholder. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

### **Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

**Fair value measurement**

The Group measures its leasehold land and buildings classified as property, plant and equipment and investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than construction contract assets, financial assets and investment properties), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### **Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the property revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset’s original cost. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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Depreciation is calculated on the straight-line basis or reducing balance basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	15% on the reducing balance basis
Office equipment	15% on the reducing balance basis
Tools and equipment	15% on the reducing balance basis
Motor vehicles	15% on the reducing balance basis

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

**Investments and other financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the statement of profit or loss.

## **Financial liabilities**

### ***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include accounts payable, other payables and accruals, amounts due to a non-controlling shareholder and the Remaining Group and interest-bearing bank borrowings.

### ***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

#### ***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

***Financial guarantee contracts***

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Cash and cash equivalents**

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) Management fee income, when the services are rendered.

### **Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

## Share-based payments

### *Share-based compensation*

The Company’s ultimate holding company operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants including all directors of the Company.

The cost of equity-settled transactions with these directors is measured by reference to the fair value using an option pricing model at the date at which they are granted, unless the directors consider such cost of equity-settled transactions to be insignificant to the results of the Company.

## Other employee benefits

### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

## Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the combined statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### **Judgements**

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Operating lease commitments — Group as lessor*

The Group has entered into commercial property leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Estimates regarding the realisability of deferred tax assets*

Estimating the amount for deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years’ taxable income and assessing the ability to utilise tax benefits through future taxable profits. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details of the unrecognised tax losses of the Group are set out in note 25 to the Financial Information.

*Useful lives and impairment of property, plant and equipment*

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

*Impairment of accounts receivable*

Impairment of accounts receivable is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

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**ACCOUNTANTS’ REPORT**

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**4. OPERATING SEGMENT INFORMATION**

For management purpose, the Group has only one reportable operating segment which is the construction contracting and related business. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

**Geographical information**

(a) **Revenue from external customers**

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Hong Kong	391,168	644,825
Mainland China	149,058	158,331
Macau	—	22,223
	<u>540,226</u>	<u>825,379</u>

The revenue information above is based on the locations of the customers.

(b) **Non-current assets**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Hong Kong	137,372	143,732
Mainland China	10,574	10,993
	<u>147,946</u>	<u>154,725</u>

The non-current assets information above is based on the locations of the assets.

**Information about a major customer**

During the years ended 31 March 2013 and 2014, revenue of approximately HK\$73,303,000 and HK\$123,717,000, respectively, was derived from sales to a single customer.

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**5. REVENUE AND OTHER INCOME**

Revenue, which is also the Group’s turnover, represents an appropriate proportion of contract revenue from construction contracting and related business.

An analysis of the Group’s revenue and other income is as follows:

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Revenue</b>		
Income from construction contracting and related business	<u>540,226</u>	<u>825,379</u>
<b>Other income</b>		
Bank interest income	177	192
Management fee income	6,922	6,156
Gross rental income	822	907
Others	<u>901</u>	<u>5,032</u>
	<u>8,822</u>	<u>12,287</u>

**6. PROFIT BEFORE TAX**

The Group’s profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
Cost of construction contracting		504,142	778,333
Auditors’ remuneration		1,013	902
Depreciation	14	3,684	5,010
Minimum lease payments under operating leases on land and buildings		938	995
Loss on disposal of items of property, plant and equipment^		68	39
Gross rental income		(486)	(601)
Less: outgoings		<u>35</u>	<u>36</u>
Rental income		<u>(451)</u>	<u>(565)</u>

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	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
Employee benefit expense (including directors’ remuneration - note 8):			
Wages and salaries		27,328	30,811
Pension scheme contributions*		750	870
Less: Amount capitalised		<u>(6,212)</u>	<u>(7,792)</u>
		<u>21,866</u>	<u>23,889</u>
Foreign exchange differences, net^		150	—
Reversal of unclaimed liabilities		—	(4,188)
Impairment/(reversal of impairment) of accounts receivable^	17	(69)	15
Impairment of other receivables^	18	<u>—</u>	<u>64</u>

\* At 31 March 2014, there were no forfeited contributions available to the Group to reduce contributions to the pension schemes in future years (2013: Nil).

^ These amounts are included in “Other operating expenses, net” on the face of the combined statement of profit or loss.

**7. FINANCE COSTS**

An analysis of finance costs is as follows:

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Interest on bank loans and overdrafts wholly repayable within five years and total interest expense on financial liabilities not at fair value through profit or loss	1,139	826
Less: Interest capitalised	<u>(1,083)</u>	<u>(804)</u>
	<u>56</u>	<u>22</u>

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**8. DIRECTORS’ REMUNERATION**

Directors’ remuneration for the Relevant Periods, disclosed pursuant Section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), is as follows:

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Other emoluments:		
Salaries, bonuses and allowances	3,191	3,819
Pension scheme contributions	<u>84</u>	<u>90</u>
	<u><u>3,275</u></u>	<u><u>3,909</u></u>

**(a) Independent non-executive directors**

Subsequent to the end of the Relevant Periods, 3 directors were appointed as independent non-executive directors of the Company on [date].

**(b) Executive directors**

	<b>Salaries, bonuses and allowances</b>	<b>Pension scheme contributions</b>	<b>Total remuneration</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Year ended 31 March 2013</b>			
Mr. Tjia Boen Sien	455	—	455
Mr. Keung Kwok Cheung	1,197	54	1,251
Mr. Kwok Koon Keung	734	15	749
Mr. Lo Wing Ling	<u>805</u>	<u>15</u>	<u>820</u>
	<u><u>3,191</u></u>	<u><u>84</u></u>	<u><u>3,275</u></u>
<b>Year ended 31 March 2014</b>			
Mr. Tjia Boen Sien	420	—	420
Mr. Keung Kwok Cheung	1,557	60	1,617
Mr. Kwok Koon Keung	986	15	1,001
Mr. Lo Wing Ling	<u>856</u>	<u>15</u>	<u>871</u>
	<u><u>3,819</u></u>	<u><u>90</u></u>	<u><u>3,909</u></u>

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There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the years ended 31 March 2013 and 2014 included 3 and 3 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 2 and 2 non-director, highest paid employees for the years ended 31 March 2013 and 2014, respectively, are as follows:

	Year ended 31 March	
	2013	2014
	HK\$'000	HK\$'000
Salaries, bonuses and allowances	1,461	1,962
Pension scheme contributions	<u>67</u>	<u>74</u>
	<u>1,528</u>	<u>2,036</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 March	
	2013	2014
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>1</u>
	<u>2</u>	<u>2</u>

During the Relevant Periods, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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**10. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods, unless the Group’s subsidiaries did not generate any assessable profits arising in Hong Kong during that year or the Group’s subsidiaries had available tax losses brought forward from prior years to offset the assessable profits generated during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Current - Hong Kong		
Charge for the year	1,149	1,646
Current - Elsewhere		
Charge for the year	1,673	2,603
Deferred (note 25)	<u>338</u>	<u>159</u>
Total tax charge for the year	<u><u>3,160</u></u>	<u><u>4,408</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	<b>Year ended 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before tax	<u>10,434</u>	<u>20,360</u>
Tax at the statutory tax rate of 16.5%	1,722	3,359
Effect of different rates for companies operating in other jurisdictions	175	518
Income not subject to tax	(421)	(810)
Expenses not deductible for tax	1,540	1,219
Tax losses utilised from previous periods	(543)	(593)
Tax losses and temporary differences not recognised	614	702
Others	<u>73</u>	<u>13</u>
Tax charge at the Group’s effective rate of 21.7% (2013: 30.3%)	<u><u>3,160</u></u>	<u><u>4,408</u></u>

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The combined profit attributable to owners of the Company for the years ended 31 March 2013 and 31 March 2014 were all generated by the subsidiaries now comprising the Group.

**12. DIVIDENDS**

No dividend has been paid or declared by the Company since its incorporation.

**13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods as disclosed in note 2.1 above.

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14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Tools and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 March 2013</b>							
At 1 April 2012:							
Cost or valuation	99,304	1,012	2,057	3,928	1,962	5,981	114,244
Accumulated depreciation	—	(891)	(1,791)	(3,525)	(1,918)	(3,737)	(11,862)
Net carrying amount	<u>99,304</u>	<u>121</u>	<u>266</u>	<u>403</u>	<u>44</u>	<u>2,244</u>	<u>102,382</u>
At 1 April 2012, net of accumulated depreciation							
	99,304	121	266	403	44	2,244	102,382
Additions	—	—	161	366	21	51	599
Transfer to investment properties (note 15)	(8,875)	—	—	—	—	—	(8,875)
Disposals	—	—	—	(89)	—	—	(89)
Surplus on revaluation	47,292	—	—	—	—	—	47,292
Depreciation provided during the year	(2,992)	(97)	(44)	(125)	(11)	(415)	(3,684)
Exchange realignment	71	—	—	(1)	—	1	71
At 31 March 2013	<u>134,800</u>	<u>24</u>	<u>383</u>	<u>554</u>	<u>54</u>	<u>1,881</u>	<u>137,696</u>
At 31 March 2013:							
Cost or valuation	134,800	1,016	2,218	3,773	1,983	6,037	149,827
Accumulated depreciation	—	(992)	(1,835)	(3,219)	(1,929)	(4,156)	(12,131)
Net carrying amount	<u>134,800</u>	<u>24</u>	<u>383</u>	<u>554</u>	<u>54</u>	<u>1,881</u>	<u>137,696</u>
Analysis of cost or valuation:							
At cost	—	1,016	2,218	3,773	1,983	6,037	15,027
At valuation	<u>134,800</u>	—	—	—	—	—	<u>134,800</u>
	<u>134,800</u>	<u>1,016</u>	<u>2,218</u>	<u>3,773</u>	<u>1,983</u>	<u>6,037</u>	<u>149,827</u>

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	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Tools and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 March 2014</b>							
At 31 March 2013 and at 1 April 2013:							
Cost or valuation	134,800	1,016	2,218	3,773	1,983	6,037	149,827
Accumulated depreciation	—	(992)	(1,835)	(3,219)	(1,929)	(4,156)	(12,131)
Net carrying amount	<u>134,800</u>	<u>24</u>	<u>383</u>	<u>554</u>	<u>54</u>	<u>1,881</u>	<u>137,696</u>
At 1 April 2013, net of accumulated depreciation							
	134,800	24	383	554	54	1,881	137,696
Additions	—	—	—	211	20	28	259
Disposals	—	—	—	(17)	—	(25)	(42)
Surplus on revaluation	10,944	—	—	—	—	—	10,944
Depreciation provided during the year	(4,344)	(25)	(122)	(123)	(13)	(383)	(5,010)
Exchange realignment	—	1	—	—	—	2	3
At 31 March 2014	<u>141,400</u>	<u>—</u>	<u>261</u>	<u>625</u>	<u>61</u>	<u>1,503</u>	<u>143,850</u>
At 31 March 2014:							
Cost or valuation	141,400	1,016	2,218	3,926	2,003	6,023	156,586
Accumulated depreciation	—	(1,016)	(1,957)	(3,301)	(1,942)	(4,520)	(12,736)
Net carrying amount	<u>141,400</u>	<u>—</u>	<u>261</u>	<u>625</u>	<u>61</u>	<u>1,503</u>	<u>143,850</u>
Analysis of cost or valuation:							
At cost	—	1,016	2,218	3,926	2,003	6,023	15,186
At valuation	<u>141,400</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>141,400</u>
	<u>141,400</u>	<u>1,016</u>	<u>2,218</u>	<u>3,926</u>	<u>2,003</u>	<u>6,023</u>	<u>156,586</u>

The Group’s leasehold land and buildings were revalued individually at 31 March 2013 and 2014 by Peak Vision Appraisals Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$134,800,000 and HK\$141,400,000, respectively, based on their existing use.

For the years ended 31 March 2013 and 2014, revaluation surplus of HK\$47,292,000 and HK\$10,944,000, respectively, resulting from the revaluation have been credited to other comprehensive income.

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Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$13,814,000 and HK\$13,337,000 as at 31 March 2013 and 2014, respectively.

Details of the leasehold land and buildings are as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Long term lease:		
Hong Kong	12,100	13,000
Medium term leases:		
Hong Kong	<u>122,700</u>	<u>128,400</u>
	<u>134,800</u>	<u>141,400</u>

As at 31 March 2013 and 2014, certain leasehold land and buildings of the Group with aggregate carrying amount of HK\$134,800,000 and HK\$141,400,000, respectively, were pledged to secure certain banking facilities granted to the Group (note 24).

The Group appointed external valuer to be responsible for the external valuations of the Group’s properties and have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

**Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group’s properties held for own use:

	<b>Fair value measurement as at 31 March 2013 using</b>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Recurring fair value measurement for:				
Office premises and warehouse	<u>—</u>	<u>—</u>	<u>134,800</u>	<u>134,800</u>

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	Fair value measurement as at 31 March 2014 using			Total HK\$’000
	Quoted prices in active markets (Level 1) HK\$’000	Significant observable inputs (Level 2) HK\$’000	Significant unobservable inputs (Level 3) HK\$’000	
Recurring fair value measurement for:				
Office premises and warehouse	—	—	141,400	141,400

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	As at 31 March	
	2013 HK\$’000	2014 HK\$’000
Carrying amount at 1 April	99,304	134,800
Depreciation	(2,992)	(4,344)
Transfer to investment properties	(8,875)	—
Surplus on revaluation recognised in other comprehensive income	47,292	10,944
Exchange realignments	71	—
Carrying amount at 31 March	<u>134,800</u>	<u>141,400</u>

Below is a summary of the valuation techniques used and the key inputs to the valuation of properties held for own use:

**As at 31 March 2013**

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Office premises and warehouse	Direct comparison approach	Market unit sale price (per square feet)	HK\$2,434 to HK\$5,801

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As at 31 March 2014

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Range (weighted average)</b>
Office premises and warehouse	Direct comparison approach	Market unit sale price (per square feet)	HK\$2,615 to HK\$6,070

**The direct comparison approach**

Under the market approach, fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristic of the properties, which included the location, size, shape, view, floor level, year of completion and others factors collectively, to arrive at the market price per square feet.

The key input was the market price per square feet, which a significant increase (decrease) in the market price would result in a significant increase (decrease) in the fair value of the properties.

**15. INVESTMENT PROPERTIES**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Carrying amount at 1 April	—	10,250
Net gain from fair value adjustment	1,353	635
Transfer from property, plant and equipment (note 14)	8,875	—
Exchange realignment	22	(10)
Carrying amount at 31 March	<u>10,250</u>	<u>10,875</u>

The Group’s investment properties are situated in Mainland China and are held under long term leases.

The Group’s investment properties were revalued on 31 March 2013 and 2014 based on valuations performed by Peak Vision Appraisals Limited, independent professionally qualified valuer, at HK\$10,250,000 and HK\$10,875,000, respectively.

As at 31 March 2013 and 2014, investment properties of the Group with a carrying amount of HK\$10,250,000 and HK\$10,875,000, respectively, were leased to independent third parties.

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The Group appointed external valuer to be responsible for the external valuations of the Group’s properties and have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

**Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group’s investment properties:

<b>Fair value measurement as at 31 March 2013 using</b>				
	<b>Quoted prices in active markets (Level 1) <i>HK\$’000</i></b>	<b>Significant observable inputs (Level 2) <i>HK\$’000</i></b>	<b>Significant unobservable inputs (Level 3) <i>HK\$’000</i></b>	<b>Total <i>HK\$’000</i></b>
Recurring fair value measurement for:				
Commercial properties and car park space	—	—	10,250	10,250

<b>Fair value measurement as at 31 March 2014 using</b>				
	<b>Quoted prices in active markets (Level 1) <i>HK\$’000</i></b>	<b>Significant observable inputs (Level 2) <i>HK\$’000</i></b>	<b>Significant unobservable inputs (Level 3) <i>HK\$’000</i></b>	<b>Total <i>HK\$’000</i></b>
Recurring fair value measurement for:				
Commercial properties and car park space	—	—	10,875	10,875

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Carrying amount at 1 April	—	10,250
Net gain from a fair value adjustment recognised in other operating income/(expenses), net in profit or loss	1,353	635
Transfer from property, plant and equipment (note 14)	8,875	—
Exchange realignment	<u>22</u>	<u>(10)</u>
Carrying amount at 31 March	<u><u>10,250</u></u>	<u><u>10,875</u></u>

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

**As at 31 March 2013**

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Range (weighted average)</b>
Commercial properties	Investment method	Estimated rental value (per square meter and per month) Term yield Reversionary yield	RMB183 6% 7%
Car park space	Direct comparison approach	Market unit selling price	RMB300,000

**As at 31 March 2014**

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Range (weighted average)</b>
Commercial properties	Investment method	Estimated rental value (per square meter and per month) Term yield Reversionary yield	RMB189 6.25% 6.75%
Car park space	Direct comparison approach	Market unit selling price	RMB300,000

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**The investment method**

Under the investment method, fair value is estimated on the basis of capitalisation of existing rent receivable from the existing tenancies and the potential reversionary market rent of the properties.

The valuation takes into account the estimated rental value per square metre, term value and reversionary value. Term value is determined by term yield and rental value generated from the existing lease term. And the reversionary value determined by the estimated market rental value with reference to the characteristic of the investment properties, which included the, location, size, shape, view, floor level, year of completion and others factors collectively, to arrive at the reversionary yield.

The key input was the estimated rental value per square metre, which a significant increase (decrease) in rental value per square metre would result in a significantly higher/(lower) fair value of the investment properties.

**The direct comparison approach**

Under the direct comparison approach, fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristic of the properties held for own use, which included the location, size, shape, view, floor level, year of completion and other factors collectively, to arrive at the market price.

The key input was the market price, which a significant increase (decrease) in the market price would result in a significant increase (decrease) in the fair value of the properties held for own use.

**16. CONSTRUCTION CONTRACTS**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross amount due from contract customers	8,682	7,563
Gross amount due to contract customers	<u>(58,222)</u>	<u>(87,845)</u>
	<u>(49,540)</u>	<u>(80,282)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	1,914,113	1,224,693
Less: Progress billings	<u>(1,963,653)</u>	<u>(1,304,975)</u>
	<u>(49,540)</u>	<u>(80,282)</u>

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**17. ACCOUNTS RECEIVABLE**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Accounts receivable	53,138	59,777
Impairment	<u>(4,386)</u>	<u>(4,373)</u>
	48,752	55,404
Retention monies receivable	<u>7,883</u>	<u>13,502</u>
	<u><u>56,635</u></u>	<u><u>68,906</u></u>

The Group’s trading terms with its customers are mainly on credit. The credit period granted to the customers ranges from 14 to 90 days. For retention monies receivable in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group’s accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Current to 90 days	42,879	53,662
91 to 180 days	856	1,037
181 to 360 days	3,988	64
Over 360 days	<u>1,029</u>	<u>641</u>
	48,752	55,404
Retention monies receivable	<u>7,883</u>	<u>13,502</u>
Total	<u><u>56,635</u></u>	<u><u>68,906</u></u>

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The movements in the provision for impairment of accounts receivable are as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 April	13,661	4,386
Amount written off as uncollectible	(9,206)	(28)
Impairment losses recognised/(reversed) (note 6)	<u>(69)</u>	<u>15</u>
At 31 March	<u><u>4,386</u></u>	<u><u>4,373</u></u>

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable as at 31 March 2013 and 2014 of HK\$4,386,000 and HK\$4,373,000 with a carrying amount before provision of HK\$4,386,000 and HK\$4,373,000, respectively. The individually impaired accounts receivable relate to customers that were in financial difficulties or the customers that were in default in repayments and the receivables were not expected to be recovered.

The aged analysis of the accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Neither past due nor impaired	42,879	53,662
Less than 3 months past due	4,839	1,101
3 to 6 months past due	5	—
More than 6 months past due	<u>1,029</u>	<u>641</u>
	<u><u>48,752</u></u>	<u><u>55,404</u></u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

None of the retention monies receivable is either past due or impaired.

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**18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Prepayments	1,029	871
Deposits	<u>1,034</u>	<u>1,110</u>
	2,063	1,981
Other receivables	10,725	15,258
Impairment	<u>(4,223)</u>	<u>(4,287)</u>
	<u>6,502</u>	<u>10,971</u>
	<u><u>8,565</u></u>	<u><u>12,952</u></u>

Except for other receivables against which impairment has been made, the remaining assets are neither past due nor impaired. The financial assets included in the above net balances relate to receivables for which there was no recent history of default.

The movements in the provision for impairment of other receivables are as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 April	4,215	4,223
Impairment losses (note 6)	—	64
Exchange realignment	<u>8</u>	<u>—</u>
At 31 March	<u><u>4,223</u></u>	<u><u>4,287</u></u>

Included in the above provision for impairment of other receivables is a provision for individual other receivables that defaulted in repayments and these receivables were not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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**19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

	<i>Note</i>	<b>As at 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
Cash and bank balances		23,716	69,263
Time deposits		<u>27,774</u>	<u>27,863</u>
		51,490	97,126
Less: Pledged deposits for banking facilities	24	<u>(27,774)</u>	<u>(27,863)</u>
Cash and cash equivalents		<u><u>23,716</u></u>	<u><u>69,263</u></u>

At 31 March 2013 and 2014, the aggregate cash and bank balances and deposits of the Group denominated in Renminbi (“RMB”) amounted to HK\$13,178,000 and HK\$6,434,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

**20. ACCOUNTS PAYABLE**

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Current to 90 days	26,523	40,940
91 to 180 days	153	—
181 to 360 days	407	—
Over 360 days	<u>3,850</u>	<u>3,955</u>
	<u><u>30,933</u></u>	<u><u>44,895</u></u>

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Accounts payable are non-interest-bearing and are normally settled on 30-day terms.

**21. OTHER PAYABLES AND ACCRUALS**

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Other payables	16,580	17,384
Deposits received	67	604
Accruals	<u>4,687</u>	<u>4,619</u>
	<u><u>21,334</u></u>	<u><u>22,607</u></u>

Other payables are non-interest-bearing and repayable on demand.

**22. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER**

The amount due to a non-controlling shareholder is unsecured, interest-free and repayable on demand.

**23. BALANCES WITH RELATED COMPANIES AND THE REMAINING GROUP**

All the balances with related companies and the Remaining Group are unsecured, interest-free and repayable on demand.

The particulars of an amount due from a related company, Excel Win Limited (“Excel Win”), are as follows:

<b>Name</b>	<b>31 March</b>	<b>Maximum amount outstanding during the year</b>	<b>1 April</b>
	<b>2014</b>		<b>2013</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Excel Win	<u>668</u>	<u>961</u>	<u>961</u>

*Note:* Mr. Tjia Boen Sien is a director and has beneficial interests in the Group and Excel Win.

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24. INTEREST-BEARING BANK BORROWINGS

	As at 31 March 2013			As at 31 March 2014		
	Contractual interest rate (%)	Maturity	HK\$’000	Contractual interest rate (%)	Maturity	HK\$’000
<b>Current</b>						
Bank loans - secured	3.75 to 4.18	2013 to 2014	15,662	3.75 to 4.28	2014 to 2015	20,744
Bank overdrafts - secured	Prime rate + 0.75	—	6,465	Prime rate + 0.75	—	10
Trust receipt loans - secured	Prime rate + 0.875	2013 to 2014	18,902	Prime rate + 0.875	2014 to 2015	27,428
			41,029			48,182
<b>Non-current</b>						
Bank loans - secured	3.75 to 4.18	2014 to 2015	35,805	3.75 to 4.18	2015	15,117
			76,834			63,299

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>

Analysed into:

Bank loans, overdrafts and trust receipt loans repayable:		
Within one year or on demand	41,029	48,182
In the second year	35,805	15,117
	76,834	63,299

The carrying amounts of these bank borrowings approximate to their fair values as at the end of the reporting period. The fair value of bank borrowings has been calculated by discounting the expected future cash flows at the prevailing interest rates.

As at 31 March 2013 and 2014, the Group’s banking facilities are secured by:

- (i) the pledge of certain of the Group’s leasehold land and buildings situated in Hong Kong of HK\$134,800,000 and HK\$141,400,000, respectively (note 14);

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- (ii) the pledge of the Group’s deposits of HK\$27,774,000 and HK\$27,863,000, respectively (note 19);
- (iii) corporate guarantees executed by the Remaining Group for banking facilities granted to the Group as at 31 March 2013 and 2014, respectively; and
- (iv) cross guarantees executed by certain subsidiaries of the Group and a fellow subsidiary for banking facilities of HK\$130,000,000 and HK\$130,000,000 granted to them as at 31 March 2013 and 2014, respectively.

Certain of the Group’s bank loans contain repayment on demand clauses, based on the maturity terms of the bank loans and trust receipt loans, the amounts repayable in respect of the Group’s interest-bearing bank borrowing as at 31 March 2013 and 2014 are: within one year or on demand of HK\$41,029,000 and HK\$48,182,000, respectively; in the second year of HK\$20,688,000 and HK\$15,117,000, respectively; in the third to fifth years, inclusive of HK\$15,117,000 and nil, respectively.

**25. DEFERRED TAX**

The movements in deferred tax liabilities during the year are as follows:

**31 March 2013**

	<b>Accelerated tax depreciation</b>	<b>Revaluation of properties</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 April 2012	239	12,610	12,849
Deferred tax charged to the statement of profit or loss during the year (note 10)	—	338	338
Deferred tax charged to the statement of comprehensive income the year	—	7,803	7,803
Exchange realignment	—	16	16
	<u>239</u>	<u>20,767</u>	<u>21,006</u>
Deferred tax liabilities at 31 March 2013	<u>239</u>	<u>20,767</u>	<u>21,006</u>

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**31 March 2014**

	<b>Accelerated tax depreciation</b>	<b>Revaluation of properties</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 31 March 2013 and 1 April 2013	239	20,767	21,006
Deferred tax charged to the statement of profit or loss during the year (note 10)	—	159	159
Deferred tax charged to the statement of comprehensive income the year	—	1,806	1,806
Exchange realignment	—	(3)	(3)
	<u>239</u>	<u>22,729</u>	<u>22,968</u>
Deferred tax liabilities at 31 March 2014	<u>239</u>	<u>22,729</u>	<u>22,968</u>

As at 31 March 2013 and 2014, the Group has estimated tax losses arising in Hong Kong of HK\$524,665,000 and HK\$521,222,000, respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries with uncertain future operating profit streams.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

**26. SHARE CAPITAL**

There was no authorised and issued capital as at 31 March 2013 and 2014 since the Company has not yet been incorporated.

The Company was incorporated on 18 July 2014 with an initial authorised share capital of HK\$390,000 divided into 3,900,000 shares of a par value of HK\$0.1 each. On the date of incorporation, 1 ordinary share of HK\$0.1 were issued and allotted by the Company to its then shareholder.

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[On [date], written resolution of the sole shareholder of the Company was passed pursuant to which (a) the Company underwent a subdivision of shares whereby each of the existing issued and unissued ordinary share of par value HK\$0.10 was subdivided into two ordinary shares of par value HK\$0.05 each, such that after the subdivision, the authorised share capital of the company became HK\$390,000 divided into 7,800,000 shares of par value HK\$0.05 each and the issued share capital of the Company became HK\$0.10 divided into two shares of par value HK\$0.05 each; (b) the authorised share capital of the Company was increased from HK\$390,000 divided into 7,800,000 shares of par value HK\$0.05 to the aggregate of HK\$100,000,000 divided into 2,000,000 shares of par value HK\$0.05 each by creation of 1,992,200,000 ordinary shares of HK\$0.05 each; and (c) the allotment of [REDACTED] ordinary shares of HK\$0.05 each to [Deson] and [REDACTED] ordinary shares of HK\$0.05 each to Huge Energy Holdings Limited as a result of the Reorganisation.]

**27. RESERVES**

The amounts of the Group’s reserves and the movements therein for each of the Relevant Periods are presented in the combined statement of changes in equity.

**28. CONTINGENT LIABILITIES**

The Group has executed a cross guarantee of HK\$130,000,000 to a bank for banking facilities granted to certain subsidiaries of the Group and a fellow subsidiary as at 31 March 2013 and 2014. Nil and HK\$687,000 of the banking facilities granted were utilised by this fellow subsidiary as at 31 March 2013 and 2014, respectively.

**29. OPERATING LEASE ARRANGEMENTS**

**(a) The Group as lessor**

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 March 2013 and 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	<u>306</u>	<u>—</u>

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(b) **The Group as lessee**

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years.

As at 31 March 2013 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	567	733
In the second to fifth years, inclusive	<u>139</u>	<u>8</u>
	<u>706</u>	<u>741</u>

**30. COMMITMENTS**

As at 31 March 2013 and 2014, the Group did not have any significant capital commitments.

**31. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions and balances detailed elsewhere in this Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>
Management fees received from the			
Remaining Group	(i)	5,394	5,644
Management fee received from a related company	(i)	55	55
Rental income from related companies	(ii)	<u>306</u>	<u>306</u>

*Notes:*

- (i) The management fees were charged by reference to actual costs incurred for the services provided by the Group.
- (ii) During the Relevant Periods, rental income was charged to Fitness Concept Limited (“FCL”) at HK\$25,500 per month. Mr. Tjia Boen Sien is a director of and has beneficial interests in the Company and FCL while Mr. Keung Kwok Cheung is a director of the Company and FCL.

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(b) Other transactions with related parties:

- (i) The Group’s banking facilities are secured by corporate guarantees executed by the Remaining Group, as further detailed in note 24 to the Financial Information.
- (ii) The Group’s banking facilities are secured by cross guarantees executed by a fellow subsidiary, as further detailed in note 24 to the Financial Information.

(c) Outstanding balances with related parties:

- (i) Details of the Group’s balance with its non-controlling shareholder as at the end of each of the Relevant Periods are included in note 22 to the Financial Information; and
- (ii) Details of the Group’s balances with its related companies and the Remaining Group as at the end of each of the Relevant Periods are included in note 23 to the Financial Information.

(d) Compensation of key management personnel of the Group:

The key management personnel of the Group are the directors of the Company. Details of their remuneration are disclosed in note 8 to the Financial Information.

## **32. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**As at 31 March 2013**

*Financial assets*

	<b>Loans and receivables</b>
	<i>HK\$’000</i>
Accounts receivable	56,635
Amounts due from related companies	5,357
Amount due from the Remaining Group	920,341
Financial assets included in prepayments, deposits and other receivables (note 18)	7,536
Pledged deposits	27,774
Cash and cash equivalents	<u>23,716</u>
	<u>1,041,359</u>

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*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>HK\$’000</i>
Accounts payable	30,933
Financial liabilities included in other payables and accruals	19,836
Amount due to a non-controlling shareholder	1,500
Amount due to the Remaining Group	762,713
Interest-bearing bank borrowings	<u>76,834</u>
	<u><u>891,816</u></u>

**As at 31 March 2014**

*Financial assets*

	<b>Loans and receivables</b> <i>HK\$’000</i>
Accounts receivable	68,906
Amounts due from related companies	5,115
Amount due from the Remaining Group	943,410
Financial assets included in prepayments, deposits and other receivables (note 18)	12,081
Pledged deposits	27,863
Cash and cash equivalents	<u>69,263</u>
	<u><u>1,126,638</u></u>

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*Financial liabilities*

	<b>Financial liabilities at amortised cost</b>
	<i>HK\$’000</i>
Accounts payable	44,895
Financial liabilities included in other payables and accruals	21,409
Amounts due to a non-controlling shareholder	1,500
Amount due to the Remaining Group	793,641
Interest-bearing bank borrowings	<u>63,299</u>
	<u>924,744</u>

**33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts and fair values of the Group’s financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	<b>Carrying amounts</b>		<b>Fair values</b>	
	<b>As at 31 March</b>		<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Financial liabilities</b>				
Interest-bearing bank borrowings	<u>51,467</u>	<u>35,861</u>	<u>51,467</u>	<u>35,861</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, bank overdraft, trust receipt loans and balances with a non-controlling shareholder, related companies and the Remaining Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of certain interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

**Fair value hierarchy**

As at the end of each of the Relevant Periods, the Group did not have any financial assets measured at fair value.

The Group did not have any financial liabilities measured at fair value as at the end of each of the Relevant Periods. As at 31 March 2013 and 2014, the Group’s financial liabilities not measured at fair value but for which fair values were disclosed included certain interest-bearing bank borrowings of HK\$51,467,000 and HK\$35,861,000, respectively. The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are unobservable (Level 3).

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group’s principal financial instruments comprise interest-bearing bank borrowings, balances with a non-controlling shareholder, related companies and the Remaining Group, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as accounts receivable, accounts payable, deposits and other receivables, and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group’s policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group’s financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

***Interest rate risk***

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s debt obligations with floating interest rates in Hong Kong.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 24 to the Financial Information. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank loans and overdrafts, cash and bank balances, and short term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expense are charged to the combined statement of profit or loss as incurred.

The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

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The following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar interest rate, with all other variables held constant, of the Group’s profit before tax and equity (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$’000	Increase/ (decrease) in equity* HK\$’000
<b>31 March 2013</b>			
Hong Kong dollar	100	(757)	—
Hong Kong dollar	(100)	757	—
<b>31 March 2014</b>			
Hong Kong dollar	100	(807)	—
Hong Kong dollar	(100)	807	—

\* Excluding retained profits

**Foreign currency risk**

The monetary assets and transactions of several subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk. It is the Group’s policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group’s profit before tax and the Group’s equity (due to changes in the fair value of monetary assets and liabilities).

	%	Increase/ (decrease) in profit before tax HK\$’000	Increase/ (decrease) in equity* HK\$’000
<b>31 March 2013</b>			
If Hong Kong dollar weakens against RMB	5	21	—
If Hong Kong dollar strengthens against RMB	(5)	(21)	—
<b>31 March 2014</b>			
If Hong Kong dollar weakens against RMB	5	(259)	—
If Hong Kong dollar strengthens against RMB	(5)	259	—

\* Excluding retained profits

*Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

The credit risk of the Group’s other financial assets, which comprise amounts due from related companies and the Remaining Group, other receivables, cash and cash equivalents and pledged deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group’s accounts receivable are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group’s exposure to credit risk arising from accounts receivable and other receivables are disclosed in notes 18 and 19 to the Financial Information, respectively.

*Liquidity risk*

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and other interest-bearing borrowings. The Group’s policy is to ensure the matching of maturity of its financial liabilities against that of its financial assets, and the maintenance of a current ratio, defined as current assets over current liabilities, at above one so as to enhance a stable liquidity.

The maturity profile of the Group’s financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

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	<b>On demand</b>	<b>Less than 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Accounts payable	—	30,933	—	30,933
Financial liabilities included in other payables and accruals	19,836	—	—	19,836
Amount due to a non-controlling shareholder	1,500	—	—	1,500
Amount due to the Remaining Group	762,713	—	—	762,713
Interest-bearing bank borrowings	—	42,849	35,805	78,654
Guarantees given to a bank in connection with facilities granted to a fellow subsidiary	6,000	—	—	6,000
	<u>790,049</u>	<u>73,782</u>	<u>35,805</u>	<u>899,636</u>

**As at 31 March 2014**

	<b>On demand</b>	<b>Less than 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Accounts payable	—	44,895	—	44,895
Financial liabilities included in other payables and accruals	21,409	—	—	21,409
Amount due to a non-controlling shareholder	1,500	—	—	1,500
Amount due to the Remaining Group	793,641	—	—	793,641
Interest-bearing bank borrowings	—	49,379	15,117	64,496
Guarantees given to a bank in connection with facilities granted to a fellow subsidiary	6,000	—	—	6,000
	<u>822,550</u>	<u>94,274</u>	<u>15,117</u>	<u>931,941</u>

In accordance with the terms of the loans, the contractual undiscounted payments at 31 March 2013 and 2014 for the interest-bearing bank borrowings in respect of the Group are HK\$42,849,000 and HK\$49,379,000, respectively, within one year to five years, HK\$36,921,000 and HK\$15,439,000, respectively.

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*Capital management*

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes accounts payable, other payables and accruals, amounts due to a non-controlling shareholder and the Remaining Group and interest-bearing bank borrowings, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	<b>As at 31 March</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Accounts payable	30,933	44,895
Other payables and accruals	21,334	22,607
Amount due to a non-controlling shareholder	1,500	1,500
Amount due to the Remaining Group	762,713	793,641
Interest-bearing bank borrowings	76,834	63,299
Less: Cash and cash equivalents	<u>(23,716)</u>	<u>(69,263)</u>
Net debt	<u>869,598</u>	<u>856,679</u>
Total capital	<u>220,577</u>	<u>245,941</u>
Total capital and net debt	<u><u>1,090,175</u></u>	<u><u>1,102,620</u></u>
Gearing ratio	<u>80%</u>	<u>78%</u>

**III. EVENTS AFTER THE REPORTING PERIOD**

[[In addition to the subsequent events as detailed in notes [●] and [●] in this report], on [date], the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company’s shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed “Reorganisation” to the Document.]

**IV. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 March 2014.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
[date]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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*The following information does not form part of the Accountant’s Report from the Company’s reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix I to this document, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial information” in this document and the Accountant’s Report set out in Appendix I to this document.*

**A.    UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

[REDACTED]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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**APPENDIX III**

**SUMMARY OF THE CONSTITUTION OF THE  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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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 18 July 2014 under the Cayman Companies Law. The Company’s constitutional documents consist of the Memorandum and 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 [DATE]. 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

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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 Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached 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 Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

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(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 Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(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 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 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 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.

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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 any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters 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 concerning any other company in which the Director or his close associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his close associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his close associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his close associates is derived) or of the voting rights;
- (ee) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of any employee's share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or a pension fund or retirement, death or disability benefits

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scheme or other arrangement which relates both to Directors, his 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; and

- (ff) 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.

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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.

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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 Cayman Companies Law, to issue debentures, debenture stock,

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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 Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(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 Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. 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.

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**(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 Cayman 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 Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is 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.

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**(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.

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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 Cayman 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 Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors’ report and a copy of the auditors’ report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent by post to the registered address of every Shareholder and every debenture holder of the Company and every other 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.

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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 Cayman 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.

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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 Cayman 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.

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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 recognise 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.

**(1) Power of the Company to purchase its own shares**

The Company is empowered by the Cayman 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.

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**(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

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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 authorised representative) or by proxy.

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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.

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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 Cayman 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 summarised 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.

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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 Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets 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 shall have the power to sell, in such manner as the Board thinks fit, any shares of a Shareholder who is untraceable, but no such sale shall be made unless:

- (i) during the period of 12 years prior to the date of the advertisements referred to in sub-paragraph (ii) below (or, if published more than once, the first thereof) at least 3 dividends or other distributions in respect of the shares in question have become payable or been made and no dividend or other distribution in respect of the shares during that period has been claimed;
- (ii) the Company has caused an advertisement to be inserted in the newspapers of its intention to sell such shares and a period of 3 months has elapsed since the date of such advertisement (or, if published more than once, the first thereof);

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(iii) the Company has not at any time during the said periods of 12 years and 3 months received any indication of the existence of the holder of such shares or of a person entitled to such Shares by death, bankruptcy or operation of law; and

(iv) the Company has notified the Stock Exchange of its intention of such sale.

The net proceeds of the sale will belong to the Company and upon receipt by the Company of such proceeds it shall become indebted to the former shareholder 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 Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 18 July 2014 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

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 Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman 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 Cayman Companies Law provides that the share premium account may be applied by the company subject to

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the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman 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 Cayman 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

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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 Cayman 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 Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy 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 Cayman 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 Cayman 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 Cayman 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.

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**(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 Cayman 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 Cayman 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.

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Section 59 of the Cayman 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 (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (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 (1999 Revision).

The undertaking for the Company is for a period of twenty years from 12 August 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.

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**(l) Loans to directors**

The Cayman 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 Cayman 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 Cayman 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.

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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 authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman 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.

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**(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 Cayman Companies Law, is available for inspection as referred to in the paragraph headed “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.

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APPENDIX IV

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A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation of our company

Our Company was incorporated in the Cayman Islands under the Companies Laws as an exempted company with limited liability on 18 July 2014. Our Company’s registered office is at Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. Our Company has established a principal place of business in Hong Kong at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 21 August 2014 with [Mr. Tong Ka Ming, Patrick] appointed as the Hong Kong authorised representative of our Company on [●] for acceptance on behalf of our Company of service of process and any notices required to be served on our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates and is subject to the Companies Law and its constitution documents, which comprises the Memorandum and the Articles. A summary of certain provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law are set out in Appendix III of this document.

2. Changes in authorised and issued share capital of our Company

As at the date of incorporation of our Company, the authorised share capital of our Company was HK\$390,000 divided into 3,900,000 shares of par value HK\$0.10 each. The following sets out the changes in the authorised and issued share capital of our Company since its date of incorporation up to the date of this document:

- (i) On 18 July 2014, one ordinary Share of par value HK\$0.10 each was allotted and issued credited as fully paid to Reid Services Limited as the initial subscriber. On 18 July 2014, the said one share was transferred to Deson Development Holdings.
- (ii) On [●], Deson Development Holdings and HEHL, an Independent Third Party, transferred all their shares in Latest Ventures, being 1,000 shares, to our Company, in consideration for an amount of HK\$17,500,000 owing to them by the Company.
- (iii) On [●], our Company underwent a subdivision of shares whereby each of the existing issued and unissued ordinary share of par value HK\$0.10 was subdivided into two ordinary Shares of par value HK\$0.05 each, and such subdivided Shares shall rank *pari passu* in all respects with each other, such that after the subdivision, the authorised share capital of our Company became HK\$390,000 divided into 7,800,000 Shares of par value HK\$0.05 each, and the issued share capital of our Company became HK\$0.10 divided into two Shares of par value HK\$0.05 each.
- (iv) Subsequent to the subdivision of Shares as described in (iii) above, on the same day, our Company underwent an increase of authorised share capital whereby the authorised share capital of our Company was increased from HK\$390,000 divided into 7,800,000 Shares

of par value HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 Shares of par value HK\$0.05 each by the creation of an additional 1,992,200,000 new Shares of par value HK\$0.05 each ranking *pari passu* in all respects with the Shares in issue. On the same date, our Company issued and allotted 315,349,998 new Shares of par value HK\$0.05 each, credited as fully paid, to Deson Development Holdings and 34,650,000 new Shares of par value HK\$0.05 each, credited as fully paid, to HEHL to capitalise and as consideration for setting off against the amount owing to them for the Company’s acquisition of the shares in Latest Ventures from Deson Development Holdings and HEHL on [●], so that upon such issuance and allotment of the Shares, our Company is owned as to 90.1% by Deson Development Holdings and 9.9% by HEHL.

Immediately following completion of the Listing, the authorised share capital of our Company will be HK\$100,000,000 divided into 2,000,000,000 Shares of par value HK\$0.05 each, of which 350,000,000 Shares were issued fully paid or credited as fully paid, and 1,650,000,000 Shares remain unissued.

Other than the exercise of the general mandate to issue Shares referred to in the section headed “A. Further information about our Company and our Subsidiaries — 3. Written resolutions of our then sole Shareholder passed on [●]”, our Directors have no present intention to issue any part 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.

Save as disclosed in this document and other than the Distribution, there has been no alteration in the authorised and issued share capital of our Company since its incorporation up to the date of this document.

**3. Written resolutions of our then sole Shareholder passed on [●]**

Pursuant to the written resolutions of the then sole Shareholder of our Company passed on [●], the following resolutions were passed by the sole Shareholder, pursuant to which, among other things:

- (a) the shares in our Company were subdivided whereby each of the existing issued and unissued ordinary share of par value HK\$0.10 each was subdivided into two ordinary Shares of par value HK\$0.05 each, and such subdivided Shares shall rank *pari passu* in all respects with each other, such that after the subdivision, the authorised share capital of our Company became HK\$390,000 divided into 7,800,000 Shares of par value HK\$0.05 each, and the issued share capital of our Company became HK\$0.10 divided into two Shares of par value HK\$0.05 each;
- (b) the authorised share capital of our Company was increased from HK\$390,000 divided into 7,800,000 Shares of par value HK\$0.05 each to HK\$1,000,000,000 divided into 2,000,000,000 Shares of par value HK\$0.05 each by the creation of an additional 1,992,200,000 new Shares of par value HK\$0.05 each ranking *pari passu* in all respects with the Shares in issue;

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- (c) a sum of HK\$17,500,000 due from our Company to Deson Development Holdings and HEHL as the consideration for the Company’s acquisition of all the shares in Latest Ventures from Deson Development Holdings and HEHL on [●] was capitalised and set off in full by the allotment and issue of 315,349,998 new Shares of par value HK\$0.05 each, credited as fully paid, to Deson Development Holdings and 34,650,000 new Shares of HK\$0.05 each, credited as fully paid, to HEHL, and an amount of HK\$17,500,000 be credited for the issue of such new Shares;
- (d) our Company conditionally approved and adopted the Memorandum and Articles to take effect on the date of the written resolutions of the sole Shareholder of our Company;
- (e) conditional upon the fulfilment of the conditions of Spin-off:
  - (i) the Listing was approved and our Directors were authorised to (aa) implement the Listing; and (bb) do all things and execute all documents in connection with or incidental to the Induction with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
  - (ii) a general unconditional mandate (the “**Issuing Mandate**”) was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Listing; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph 3(c)(iii) below, such mandate to remain in effect until 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 any applicable laws to be held, or the passing of an ordinary resolution by our Shareholders at a general meeting revoking, varying or renewing such mandate, whichever occurs first;
  - (iii) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Listing, such mandate to remain in effect until 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 any applicable laws to be held, or the passing of an ordinary resolution by our Shareholders at a general meeting revoking, varying or renewing such mandate, whichever occurs first; and

- (iv) the extension of the Issuing Mandate above to include the nominal amount of Shares which may be purchased or repurchased pursuant to the Repurchase Mandate 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 the completion of the Listing.

#### **4. Corporate Reorganisation**

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. For information relating to the Reorganisation, please refer to the section headed “History, reorganisation and corporate structure — Overview of the Reorganisation” of this document for more details.

#### **5. Changes in share capital of our principal subsidiaries**

Subsidiaries of our Company are listed in the Accountant’s Report set out in Appendix I to this document.

In addition to those disclosed in the section headed “History, Reorganisation and corporate structure — Overview of the Reorganisation” of this document, the following alterations in the authorised and issued share capital of our subsidiaries have taken place within two years immediately preceding the date of this document:

##### **(a) Shanghai Deson**

On 18 October 2012, in order for us to achieve full control in Shanghai Deson, Deson Industries, a wholly owned subsidiary of our Company, entered into an equity transfer agreement with 上海順泰電子科技有限公司 (Shanghai Shuntai Electronics Technology Limited\*) (“**Shanghai Shuntai**”), an Independent Third Party, pursuant to which Deson Industries agreed to acquire from Shanghai Shuntai its 5% interest in Shanghai Deson for cash at the consideration of US\$40,000. Such consideration was determined between the parties on an arm’s length basis with reference to the then registered capital, and was settled on 5 April 2013. The acquisition was approved by Shanghai Municipal Commission of Commerce (上海市商務委員會) and was legally completed and became effective on 18 February 2013, and Shanghai Deson became wholly owned by Deson Industries.

On 28 May 2014, it was resolved by the shareholder’s resolution of Shanghai Deson to increase the registered capital to US\$900,000 with distributable profits from the year ended 31 December 2013. Such an increase in registered capital was approved by Shanghai Municipal Commission of Commerce (上海市商務委員會) and became effective on 25 June 2014.

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**(b) Deson Macau**

On 14 March 2013, Mr. Tjia declared that he was holding 1,000 shares representing 3.33% interest in Deson Macau on trust for the benefit of Grace Profits.

On 19 August 2014, Mr. Tjia transferred such 1,000 shares representing 3.33% interest in Deson Macau to Colton Ventures at the cash consideration of MOP1,000.

Save as set out above, 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 document.

**6. Further information about our PRC subsidiaries**

Set out below is a summary of the corporate information of the PRC subsidiaries of our Company:

**(a) Beijing Chang-de**

Name of subsidiary	北京長迪建築裝飾工程有限公司 (Beijing Chang-de Architectural & Decoration Company Limited)
Date of establishment	19 March 1990
Place of establishment	the PRC
Nature	Limited liability company (sino-foreign joint venture)
Registered capital	RMB 16,000,000
Total paid-up capital	RMB 16,000,000
Attributable interest to our Group	70% (Note 1)
Term	19 March 1990 to 18 March 2020
Principal business	Decoration contracting and building construction projects, electrical and mechanical equipment instalments, building waterproof construction, intelligent building construction; building technology consultancy and building projects management

*Note 1:* Beijing Chang-de is held through Deson Construction Engineering, which is owned as to 85.7% by Deson Development. Accordingly, we only have an effective interest of 60% in Beijing Chang-de.

**(b) Shanghai Deson**

Name of subsidiary	上海迪申建築裝潢有限公司 (Shanghai Deson Decoration Engineering Limited*)
Date of establishment	27 April 1993
Place of establishment	the PRC

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Nature	Limited liability company (wholly foreign owned enterprise)
Registered capital	US\$900,000
Total paid-up capital	US\$900,000
Attributable interest to our Group	100%
Term	27 April 1993 to 26 April 2023
Principal business	Interior and exterior fitting-out works, renovation and design agency works, electrical and mechanical equipment instalments (commencement of which subject to obtaining relevant approval)

\* For identification purpose only

**7. Repurchase by our Company of its own securities**

This paragraph contains information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

**(a) Provision of the GEM Listing Rules**

Subject to certain restrictions, the GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their own securities on the Stock Exchange, the most important of which are summarised below.

**(i) Shareholders' approval**

The GEM Listing Rules provide that all proposed repurchases of securities by a company with its primary listings on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of a specific approval of a specific transaction, or by way of a general mandate.

**(ii) Source of funds**

Any repurchases must be financed out of funds legally available for the purpose in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

**(a) Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to

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repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share. Repurchases of Shares will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(b) *Funding of repurchase*

Under the Companies Law, any repurchases by our Company may be made either (1) out of profits of our Company; (2) out of the share premium account of our Company; or (3) out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase; or (4) out of capital, if so authorised by the Articles and subject to the provisions of the Companies Laws. In the case of any premium payable over the par value of the Shares to be repurchased on the repurchase, such premium must be provided out of either or both of the profits of our Company or the share premium account of our Company, or out of capital, if so authorised by the Articles and subject to the provisions of the Companies Laws.

Our Directors do not propose to exercise the Share Repurchase Mandate to such an extent that would have a material adverse effect on the working capital position of our Company or the gearing levels which, in the opinion of our Directors, are appropriate for our Company from time to time.

(iii) *Trading restrictions*

Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by it to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchases as the Stock Exchange may request. Our Company also shall not purchase its Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange.

(iv) *Status of repurchased shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares will be cancelled and destroyed. Under the Companies Law, the Company’s repurchased Shares shall be treated as cancelled on repurchase and the amount of the Company’s issued share capital shall be diminished by the aggregate nominal value of the repurchased Shares (although the authorised share capital of the Company will not reduced as a result of the repurchase).

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(v) *Suspension of repurchases*

Pursuant to the GEM Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information has been made publicly available. In particular, under the requirements of the GEM Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first 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, quarter-year period or any other interim period (whether or not required by the GEM Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year, or half-year or quarter-year period under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if our Company has breached the GEM Listing Rules.

(vi) *Procedural and reporting requirements*

As required by the GEM Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares, reporting the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, our Company’s annual report is required to disclose details regarding repurchases of Shares made during the year, including the number of Shares repurchased each month, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid. The directors’ report shall contain reference to the purchases made during the year and the directors reasons for making such purchases.

(vii) *Core connected persons*

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a “core connected person” which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) **Reasons for repurchases**

Our Directors believe that it is in our and our Shareholders’ best interests for our Directors to have general authority from the Shareholders to enable our Company to execute repurchases of the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

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**(c) Funding of repurchases**

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our Company’s current financial position as disclosed in this document and taking into account our Company’s current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our Company’s working capital and/or our Company’s gearing position as compared with the position disclosed in this document. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company’s working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

**(d) General**

The exercise in full of the repurchase mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the Listing, could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting of our Company; or
  - (ii) the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
  - (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,
- whichever is the earliest.

None of our Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules), have any present intention, if the Share Repurchase Mandate is exercised, to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Share Repurchase Mandate in accordance with the GEM Listing Rules, the Articles of Association and the applicable laws and regulations.

If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition of voting rights for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the Shareholder’s interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any other consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the Share Repurchase Mandate.

Our Company is prohibited from knowingly purchasing securities on the Stock Exchange from a core connected person (as defined in the GEM Listing Rules) and such person is prohibited from knowingly selling his/her securities to our Company.

No core connected persons (as defined in the GEM Listing Rules) of our Company have notified us of intention to sell securities to our Company and such persons have undertaken not to sell any such securities to our Company, if the Share Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

**1. Summary of material contracts of our Group**

The contracts below (not being contracts entered into in the ordinary course of business) have been entered into by our Company or our subsidiaries within the two years preceding the date of this document and are, or may be, material to the business of our Group as below:

- (a) the subscription agreement dated 1 August 2014 entered into between Latest Ventures and HEHL relating to the subscription of 99 ordinary shares of US\$1.00 representing 9.9% interest in Latest Ventures by HEHL in consideration of HK\$12,450,000 paid in cash by HEHL;
- (b) share transfer agreement dated 19 August 2014 entered into between Mr. Tjia and Deson Macau relating to the sale and transfer of 1,000 shares representing 3.33% interest in Deson Macau from Mr. Tjia (which Mr. Tjia held on trust for Grace Profit) to Colton Ventures in consideration of MOP 1,000 which was paid in cash;
- (c) the share transfer agreement dated [●] entered into between Deson Industries and Deson Development Holdings relating to the sale and transfer of one share in Yan Man Developments Limited and indirectly, its subsidiaries, Rapid Advice Limited and Deson Enterprise Holdings Limited from Deson Industries to Deson Development Holdings. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Industries by Deson Development Holdings;
- (d) the share transfer agreement dated [●] entered into between Deson Development and Yan Man Developments Limited relating to the sale and transfer of one share in Deson Building Construction Limited and indirectly, its associated companies from Deson Development to Yan Man Developments Limited. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development by Yan Man Developments Limited;
- (e) the share transfer agreement dated [●] entered into between Deson Development and Yan Man Developments Limited relating to the sale and transfer of one share in Deson Technology Holdings Limited and indirectly, its subsidiaries from Deson Development to

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Yan Man Developments Limited. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development by Yan Man Developments Limited;

- (f) the share transfer agreement dated [●] entered into between Kenworth Group and Yan Man Developments Limited relating to the sale and transfer of one share in New Perfect Limited and indirectly, its subsidiary, Treasure Field Investment Limited from Kenworth Group to Yan Man Developments Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited;
- (g) the share transfer agreement dated [●] entered into between Kenworth Group transferred to Yan Man Developments Limited relating to the sale and transfer of one share in Gosford Technology Limited and indirectly, its subsidiary, Synergy Asia Limited from Kenworth Group to Yan Man Developments Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited;
- (h) the share transfer agreement dated [●] entered into between Kenworth Group and Yan Man Developments Limited relating to the sale and transfer of one share in Intellimission Limited and indirectly, its subsidiary, Kingsly Corporation Limited from Kenworth Group to Yan Man Developments Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited;
- (i) the share transfer agreement dated [●] entered into between Kenworth Group transferred to Yan Man Developments Limited relating to the sale and transfer of one share in Heraldic Fortune Limited and indirectly, its subsidiary, KEL Employment Services Limited from Kenworth Group to Yan Man Developments Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Kenworth Group by Yan Man Developments Limited;
- (j) the share transfer agreement dated [●] entered into between Deson Industries and Yan Man Developments Limited relating to the sale and transfer of two shares in Deson Building Materials Limited and indirectly, its associated company, Deson Metals Company Limited from Deson Industries to Yan Man Developments Limited. The agreed consideration for this transfer of HK\$77,100, was settled on the basis of a debt of an amount of HK\$77,100 being left outstanding and owing to Deson Industries by Yan Man Developments Limited;

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- (k) the share transfer agreement dated [●] entered into between Deson Industries and Yan Man Developments Limited relating to the sale and transfer of one share in Advancost Assets Limited and indirectly, its subsidiary, Many Light Development Limited from Deson Industries and Yan Man Developments Limited. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Deson Industries by Yan Man Developments Limited;
  
- (l) the share transfer agreement dated [●] entered into between Deson Industries and Deson Development Holdings relating to the sale and transfer of 50,000 shares in Top Brand International Limited and indirectly, its subsidiaries, Building Asia Granite & Marbel Limited and 建亞(福州)石材有限公司 (Building Asia (Fuzhou) Granite & Marble Co., Ltd.). The agreed consideration for this transfer of HK\$343,560 was settled on the basis of a debt of an amount of HK\$343,560 being left outstanding and owing to Deson Industries by Deson Development Holdings;
  
- (m) the share transfer agreement dated [●] entered into between Deson Development and Grand On Enterprise Limited relating to the transfer of all the legal and beneficial title in eight office units at Level 11 of Nanyang Plaza, Kwun Tong, Hong Kong from Deson Development to Grand On Enterprise Limited, a member of the Remaining DDIHL Group. The consideration for this transfer of approximately HK\$126.6 million, being an amount equal to the book value of these properties, was settled on the basis of a debt of an amount of approximately HK\$126.6 million being left outstanding and owing to Deson Development by Grand On Enterprise Limited;
  
- (n) the share transfer agreement dated [●] entered into between Deson Development Holdings and Latest Ventures relating to the sale and transfer of one share in Grace Profit and indirectly its subsidiary, Deson Macau from Deson Development Holdings to Latest Ventures. The consideration for this transfer of HK\$7.73, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.73 being left outstanding and owing to Deson Development Holdings by Latest Ventures;
  
- (o) the share transfer agreement dated [●] entered into between DDIHL and Latest Ventures relating to the sale and transfer of three shares in Kenworth Group and indirectly its wholly-owned subsidiary, Kenworth Engineering from DDIHL to Latest Ventures. The agreed consideration for this transfer of HK\$1 was settled on the basis of a debt of an amount of HK\$1 being left outstanding and owing to DDIHL by Latest Ventures;

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- (p) the share transfer agreement dated [●] entered into between Deson Development Holdings, HEHL and our Company relating to the sale and transfer of 1,000 ordinary shares in Latest Ventures and indirectly its wholly-owned subsidiaries (being Colton Ventures, Grace Profit and Kenworth Group) from Deson Development Holdings and HEHL to our Company. The agreed consideration for this transfer of HK\$17,499,999.90 was settled on the basis of a debt of an amount of HK\$17,499,999.90 being left outstanding and owing to Deson Development Holdings and HEHL by our Company;
- (q) the share transfer agreement dated [●] entered into between Deson Development Holdings and Latest Ventures relating to the transfer of one ordinary share in Deson Industries and indirectly its subsidiaries (being Shanghai Deson, Foregrand Holdings Inc. and Deson Engineering) from Deson Development Holdings and Latest Ventures. The consideration for this transfer of HK\$7.80, being an amount equal to the par value of the share being transferred, was settled on the basis of a debt of an amount of HK\$7.80 being left outstanding and owing to Deson Development Holdings by Latest Ventures;
- (r) the share transfer agreement dated [●] entered into between Deson Development Holdings and Colton Ventures relating to the transfer of 20,000,100 Class A voting shares in Deson Development (including 1 Class A voting share held on trust by Mr. Tjia for Deson Development Holdings was transferred to Latest Ventures and held on trust for Colton Ventures) and indirectly its subsidiaries (being Deson Construction Engineering and Beijing Chang-de) from Deson Development Holdings to Colton Ventures. The consideration for this transfer of HK\$40,000,100, being an amount equal to the investment cost of Deson Development, was settled on the basis of a debt of an amount of HK\$40,000,100 being left outstanding and owing to Deson Development Holdings by Colton Ventures;
- (s) the Administrative Services Agreement, the particulars of which are set out in the section headed “Connected transactions — Exempted connected transactions — Administrative Services Agreement” of this document;
- (t) the HK Office Tenancy Agreement, the particulars of which are set out in the section headed “Connected transactions — Exempted connected transactions — Lease of office in Hong Kong” of this document;
- (u) the SH Office Tenancy Agreement, the particulars of which are set out in the section headed “Connected transactions — Exempted connected transactions — Lease of office in Shanghai, the PRC” of this document;
- (v) a non-competition agreement dated [●], executed by DDIHL in favour of our Company (for itself and as trustee for each of its subsidiaries), pursuant to which DDIHL has given certain non-competition undertakings, as referred to in the paragraph headed “Relationship with our Controlling Shareholder — Non-competition Agreement” of this document; and
- (w) a deed of indemnity dated [●], executed by the Controlling Shareholder in favour of [●] (for itself and as trustee for each of its subsidiaries) containing indemnities in respect of certain tax liabilities and claims which may arise, as referred to in the section headed “D. Other information — 1. Estate duty, tax and other indemnities” in Appendix IV to this document.

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**2. Summary of intellectual property rights of our Group****(a) Trademark**

As at the Latest Practicable Date, our Group has applied for registration of the following trademarks which, in the opinion of our Directors, are material to our business:

<b>Trademark</b>	<b>Name of Applicant</b>	<b>Application number</b>	<b>Place of Application</b>	<b>Class</b>	<b>Date of Application</b>
	Deson Development	303105693	Hong Kong	19, 37, 42	19 August 2014
	Deson Development	303105701	Hong Kong	19, 37, 42	19 August 2014
	Deson Development	303105710	Hong Kong	19, 37, 42	19 August 2014

As at the Latest Practicable Date, our Group has also applied for registration of trademarks in the PRC.

**(b) Domain Name**

As at the Latest Practicable Date, our Group has registered the following domain name which, in the opinion of our Directors, is material to our business:

<b>Domain name</b>	<b>Registrant</b>	<b>Term/Expiry Date</b>
www.deson-c.com	Deson Development	7 July 2015

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS****1. Particulars of Directors' service contracts and letters of appointment**

Each of our executive Directors Mr. Keung Kwok Cheung, Mr. Kwok Koon Keung and Mr. Lo Wing Ling has entered into a service agreement with our Company regarding their appointment as executive Directors for an initial term of three years commencing from the Listing Date unless terminated by not less than three months prior written notice or otherwise in accordance with the service agreement.

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According to the terms of the service contracts entered into between our Company and the executive Directors, the annual remuneration (excluding discretionary and performance bonuses) of each of our executive Director is as follows:

<b>Name</b>	<b>Salaries and allowances (HK\$)</b>	<b>Retirement scheme contributions (HK\$)</b>
Mr. Keung Kwok Cheung	1,260,000	63,000
Mr. Kwok Koon Keung	769,200	18,000
Mr. Lo Wing Ling	862,848	18,000

The basic monthly salary payable by the Company to the relevant executive director is subject to annual review by our Board and the remuneration committee of our Company provided that any increment in the basic monthly salary shall not exceed 15% of the monthly salary for the preceding year.

Each of the executive Directors will be entitled to a discretionary bonus and a performance bonus as may be determined by the remuneration committee of the Company from time to time by reference to the financial performance of the Company as well as the individual performance of the relevant executive Directors.

Our non-executive Director and independent non-executive Directors, Mr. Tjia, Mr. Lee Tho Siem, Mr. Cheung Ting Kee and Mr. Ong King Keung have signed a letter of appointment dated [●] with our Company for an initial term of three years commencing from the Listing Date. The annual director’s fees payable by our Company to each of our non-executive Director and independent non-executive Directors are an aggregate amount of approximately HK\$120,000 respectively according to the letters of appointment.

Save as disclosed above, none of our Directors has entered into a service contract 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)).

**2. Directors’ remuneration**

For the years ended 31 March 2013 and 2014, the total remuneration (including salaries and allowances, discretionary bonus and contributions to pension scheme) paid to our Directors by our Group was approximately HK\$3.3 million and approximately HK\$3.9 million respectively.

For the years ended 31 March 2013 and 2014, the total remuneration (including salaries and bonus, allowances, and pension scheme contributions) paid to our Company’s five highest paid individuals by our Group was approximately HK\$4.3 million and approximately HK\$5.5 million respectively.

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During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors or former Directors or the five highest paid individuals for each of the years during the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

There was no arrangement under which a director waived or agreed to waive any emoluments for any of the two years ended 31 March 2014.

Save as disclosed above, no other payments has been made or are payable in respect of the two years ended 31 March 2014 by any member of our Group to any of our Directors.

Pursuant to the current arrangements in force, it is anticipated that, for the year ending 31 March 2015, an aggregate amount of approximately HK\$3.1 million will be payable to our Directors as remuneration and benefits in kind (excluding any commission or discretionary bonus) by our Group.

**3. Disclosure of interests of our Directors in dealings with our Group**

None of our Directors or their close associates engaged in any dealing with our Group during the Track Record Period.

**4. Disclosure of interests and short positions of our Directors and our chief executive of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations**

Immediately following completion of the Listing, the interests or short positions of each of our Directors and our chief executive in the share capital, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required to be notified to our Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the GEM Listing Rules, will be as follows:

(i) *Interests in the Shares of our Company*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Shareholding percentage (%)</b>
Mr. Tjia	Beneficial owner	[REDACTED]	[REDACTED]
	Interest in controlled corporation ( <i>Note</i> )	[REDACTED]	[REDACTED]
Lee Tho Siem	Beneficial owner	[REDACTED]	[REDACTED]
Keung Kwok Cheung	Beneficial owner	[REDACTED]	[REDACTED]
Kwok Koon Keung	Beneficial owner	[REDACTED]	[REDACTED]

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*Note:* Sparta Assets Limited is a company incorporated in the BVI and wholly owned by Mr. Tjia. As at the Latest Practicable Date, Sparta Assets Limited directly beneficially owned 233,290,000 DDIHL Shares, representing 42.17% of the issued share capital in DDIHL. By virtue of the SFO, Sparta Assets Limited was deemed to be interested in [REDACTED] Shares owned by DDIHL (through Deson Development Holdings). Mr. Tjia is deemed to be interested in (i) [REDACTED] Shares that Sparta Assets Limited is deemed interested and which are held through DDIHL (through Deson Development Holdings); and (ii) [REDACTED] Shares beneficially owned directly by Sparta Assets Limited.

(ii) ***Interests in the shares of DDIHL (being a holding company of Deson Development Holdings and our Company and therefore an associated corporation)***

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Shareholding percentage (%)</b>
Mr. Tjia	Beneficial owner	[REDACTED]	[REDACTED]
	Interest in controlled corporation ( <i>Note</i> )	[REDACTED]	[REDACTED]
Lee Tho Siem	Beneficial owner	[REDACTED]	[REDACTED]
Keung Kwok Cheung	Beneficial owner	[REDACTED]	[REDACTED]
Kwok Koon Keung	Beneficial owner	[REDACTED]	[REDACTED]

*Note:* Sparta Assets Limited is a company incorporated in the BVI and wholly owned by Mr. Tjia. Sparta Assets Limited directly beneficially owned 233,290,000 DDIHL Shares, representing 42.17% of the issued share capital in DDIHL.

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5. Disclosure of interests under the SFO and disclosure of interests for substantial Shareholders

So far as our Directors are aware, the following persons (other than our Directors and our chief executives of our Company) will, immediately following completion of the Distribution and the Listing have beneficial interests or short positions in any Shares, underlying Shares or debentures of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

(a) *Interests in Shares of our Company*

Name	Type of interest	Number of Shares held	Percentage of shareholding in our Company (%)
Deson Development Holdings	Beneficial owner	[REDACTED]	[REDACTED]
DDIHL	Interest in controlled corporation ( <i>Note 1</i> )	[REDACTED]	[REDACTED]
Sparta Assets Limited	Beneficial owner	[REDACTED]	[REDACTED]
	Interest in controlled corporation ( <i>Note 2</i> )	[REDACTED]	[REDACTED]
HEHL	Beneficial owner	[REDACTED]	[REDACTED]
Capital VC Limited	Interest in controlled corporation ( <i>Note 3</i> )	[REDACTED]	[REDACTED]
Granda Overseas Holding Co. Ltd.	Beneficial owner	[REDACTED]	[REDACTED]
Mr. Chen Huofa	Interest in controlled corporation ( <i>Note 4</i> )	[REDACTED]	[REDACTED]

Notes:

- Deson Development Holdings is a company incorporated in the BVI and wholly owned by DDIHL. DDIHL is deemed interested in the Shares beneficially owned by Deson Development Holdings.
- Sparta Assets Limited directly beneficially owned 233,290,000 DDIHL Shares, representing 42.17% of the issued share capital in DDIHL. By virtue of the SFO, Sparta Assets Limited was deemed to be interested in [REDACTED] Shares owned by DDIHL (through Deson Development Holdings).
- HEHL is a company incorporated in the BVI and wholly owned by Capital VC Limited, a company incorporated in the Cayman Islands and whose Shares are listed on the Main Board. By virtue of the SFO, Capital VC Limited is deemed to be interested in [REDACTED] Shares.
- Granda Overseas Holding Co. Ltd., is a company incorporated in the BVI and wholly owned by Mr. Chen Huofa. By virtue of the SFO, Mr. Chen Huofa is deemed to be interested in [REDACTED] Shares held through Granda Overseas Holding Co. Ltd..

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(b) *Interests in Shares of other members of the Group*

Name of non wholly-owned subsidiaries	Name of shareholder(s)	Percentage of shareholding in our Company (%)
Deson Construction Engineering	Sudbury Profits Limited ( <i>Note 1</i> )	14.30
Beijing Chang-de	BCEG ( <i>Note 2</i> )	30.00

*Notes:*

1. Save for its interest in Deson Construction Engineering, Sudbury Profits Limited is an Independent Third Party.
2. Save for its interest in Beijing Chang-de, BCEG is an Independent Third Party.

**6. Disclaimers**

Save as disclosed in this document:

- (a) our Directors are not aware of any person (other than our Directors or the chief executive of our Company) who will, immediately following completion of the Listing, have an interest and/or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are deemed to have under such provisions of the SFO) or who will, either directly or indirectly, be expected to be interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;
- (b) none of our Directors or the chief executives of our Company had any interest or short position in any of the 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors nor any of the persons whose names are listed in the section headed “D. Other information — 9. Qualifications of experts” in this Appendix IV was directly or indirectly interested in the promotion of our Company, or has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to our Company or any of its subsidiaries, within the two years immediately preceding the date of this document, or were proposed to be acquired or disposed of by or leased to our Company or any of its subsidiaries;

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- (d) none of the persons whose names are listed in the section headed “D. Other information — 9. Qualifications of experts” of this Appendix IV is materially interested in any contract or arrangement subsisting at the date of this document which was significant in relation to the business of our Group;
- (e) none of our Directors nor any of the persons whose names are listed in the section headed “D. Other information — 9. Qualifications of experts” in this Appendix IV has received any agency fee, commissions, discounts, brokerage or other special terms from our Group within the two years immediately preceding the date of this document in connection with the issue or sale of any capital of any member of our Group;
- (f) save as disclosed in this document, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken; and
- (g) none of the parties listed in the section headed “D. Other information — 9. Qualifications of experts” of this Appendix IV:
  - (i) are interested legally or beneficially in any securities of any member of our Group; and
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of our Group.

**D. OTHER INFORMATION**

**1. Estate duty, tax and other indemnities**

*Estate Duty*

Pursuant to The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006 in Hong Kong, estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands or the BVI or the PRC or Macau or Hong Kong in which the companies comprising our Group are incorporated. There are currently no taxes in the form of estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in the BVI with respect of any shares, debt obligations or other securities of a BVI company.

*Stamp Duty*

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. A total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

*Deed of Indemnity*

The Controlling Shareholder (the “**Indemnifier**”) has entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries) to provide indemnities in respect of, among other matters, any liability for tax, legal non-compliances and/or certain outstanding legal proceedings against any member of the Group which might be incurred by any member of our Group on or before the Listing Date (“**Effective Date**”).

Under the Deed of Indemnity, the Indemnifier has given indemnities to our Group in relation to (i) the amount of any and all taxation which might be payable by any member of our Group resulting from or by reference to any revenue (including in the form of government financial assistance, subsidy or rebate), income, profits or gains earned, accrued, received or made (or deemed to be so earned, accrued, received or made) on or before the Effective Date or any event or transaction entered into or occurring or deemed to occur on or before the Effective Date; (ii) any liability due to failure or alleged failure to comply with any applicable laws, rules and regulations in Hong Kong, the PRC and Macau which any member of our Group may suffer or incur as a result of such non-compliances as they may continue to be subsisting as at the Effective Date; (iii) any liability due to certain outstanding legal proceedings in Hong Kong and the PRC against any member of the Group which any member of our Group may suffer or incur as a result of such legal proceedings as they may continue to be subsisting as at the Effective Date, save for the following amongst others,

- (a) to the extent that full provisions or allowance has been made in the audited accounts of members of our Group for an accounting period ended on or before 31 March 2014;
- (b) to the extent that such liability arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Effective Date;
- (c) to the extent that such liability is caused by the act or omission of, or transaction voluntarily effected by, any members of our Group which are carried out or effected in the ordinary course of business on or before the Effective Date;
- (d) to the extent that such liability is discharged by another person who is not a member of our Group or such loss is recovered under a valid policy of insurance in force and that none of member of the Group is required to reimburse such person or insurance companies in respect of the discharge of such liability; or

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- (e) to the extent of any provisions or reserve made for such liability in the audited accounts of our Group up to 31 March 2014 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce Indemnifier’s liability in respect of such liability shall not be available in respect of any such liability arising thereafter.

**2. Litigation**

Save as disclosed in the section headed “Business - Litigation and claims” in this document, as at the Latest Practicable Date, 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, that would have a material adverse effect on our business, results of operations or financial condition.

**3. Sole Sponsor**

Kingsway Capital Limited has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this document.

The Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

The sponsor’s fee in relation to the Listing is approximately HK\$4.2 million.

**4. Promoter**

Our Company has no promoter. Save as disclosed in this document, within the two years preceding the date of this document, no cash, securities or other benefit had been paid, allotted or given, nor are any such cash, securities or other benefit intended to be paid, allotted or given, to the promoter of our Company in connection with the Spin-off or the related transactions described in this document.

**5. Agency fees or commissions received**

Save as disclosed in this document and save for a sum of HK\$249,000 which was incurred as commission paid relating to the pre-Listing investment as described in the section headed “History, reorganisation and corporate structure — Pre-Listing strategic investment” in this document, within the two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of its subsidiaries.

**6. Preliminary expenses**

The preliminary expenses payable by our Company are estimated to be about HK\$109,000.

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**7. Registration procedures**

The register of members of our Company will be maintained in Cayman Islands by [REDACTED] and a Hong Kong branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s Hong Kong branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**8. Taxation of holders of Shares**

Dealings in Shares will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Potential holders of 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 Shares.

None of our Company, our Directors or other parties involved in the Listing can accept 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.

**9. Qualifications of experts**

The following are the respective qualifications of the experts who have given opinion or advice which are included in this document:

<b>Name</b>	<b>Qualification</b>
Kingsway Capital Limited	A corporation licensed to carry on for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
JunZeJun Law Offices	Legal advisers as to the PRC law
Appleby	Legal adviser to the Company on the Cayman Islands laws
Baker Tilly Hong Kong Risk Assurance Limited	Internal control adviser
Peak Vision Appraisals Limited	Property valuer
Tsang & Lee, Solicitors	Legal adviser to the Company as to Hong Kong law (property law only)

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**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

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**10. Consents of experts**

Each of the experts named in the paragraph headed “9. Qualification of experts” under this section of this Appendix IV has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or certificates and/or opinions and/or references to its name (as the case may be) included in the form and context in which they are respectively included.

**11. No material adverse change**

Save for the estimated non-recurring Listing expenses, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in financial or trading position or prospects of our Group since 31 March 2014, being the date on which the latest financial information of our Group was reported in the accountants’ report included in Appendix I to this document.

**12. Miscellaneous**

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
  - (iii) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;
  - (iv) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) None of the persons whose names are listed in the paragraph headed “9. Qualifications of experts” under this section of this Appendix IV:
  - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group.
- (c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

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- (d) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group within 12 months preceding the date of this document.
  
- (e) There are no arrangements in existence under which future dividends are to be or agreed to be waived.
  
- (f) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
  
- (g) Our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities as at the Latest Practicable Date.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Howse Williams Bowers at 27th Floor Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report of our Company prepared by Ernst & Young, the text of which is set out in Appendix I to this document;
- (c) the audited combined financial statements of our Group for the two years ended 31 March 2014;
- (d) the report dated [●] issued by Ernst & Young relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this document;
- (e) the letter of advice prepared by Appleby, legal advisers to our Company as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this document;
- (f) the Cayman Companies Law;
- (g) the material contracts referred to in the section headed “B. Further information about the business of our Company — 1. Summary of material contracts of our Group” in Appendix IV to this document;
- (h) the PRC legal opinion issued by JunZeJun Law Offices;
- (i) the Hong Kong property legal opinion issued by Tsang & Lee, Solicitors
- (j) the service contracts referred to in the section headed “C. Further Information about Our Directors and Substantial Shareholders — 1. Particulars of Directors’ service contracts and letter of appointment” in Appendix IV to this document; and
- (k) the written consents referred to in the section headed “D. Other information — 10. Consents of experts” in Appendix IV to this document.