

## RISK FACTORS

*Prospective investors should consider carefully all the information set forth in this [REDACTED] and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the [REDACTED]. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and prospects of our Group.*

*This [REDACTED] contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group’s actual results could differ materially from those discussed in this [REDACTED]. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this [REDACTED]. The trading price of the [REDACTED] could decline due to any of these risks, and you may lose all or part of your investment.*

We believe that there are certain risks involved in an investment in the Shares. These risks can be broadly categorised into (i) risks relating to our Group and our business; (ii) risks relating to our industry; (iii) risks relating to the [REDACTED] and the performance of our Shares; and (iv) risks relating to statements made in this [REDACTED].

### RISKS RELATING TO OUR GROUP AND OUR BUSINESS

**Our business is dependent on the economic conditions in Hong Kong, particularly the performance of the property market in Hong Kong.**

Our business and revenue growth are subject to the economic conditions in Hong Kong. As all of the properties in the portfolios of our property development and property investment business are located in Hong Kong, our business and prospects largely depend on the performance of the property market in Hong Kong.

The property market in Hong Kong is affected by many factors, including:

- changes in the social, political, economic and legal environments in Hong Kong;
- changes in the Hong Kong Government’s fiscal and economic policies;
- changes in the economic conditions;
- changes in consumer confidence, consumer spending and customer preferences;
- levels of personal disposable income which may affect consumer confidence in our geographical markets and demand for our properties;
- increases in interest rates. In December 2015, the Federal Reserve of the United States decided to raise the federal funds rate by 0.25% and indicated that the rate level is expected to increase gradually in the next few years. If banks in Hong Kong follow and raise interest rates, cost of financing may become higher thereby negatively affecting the property market

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in general. For details, please refer to the paragraph headed “Risks Relating to Our Industry — Our business will be adversely affected if mortgage financing becomes more costly or otherwise less attractive or available” below in this section.

Demand for properties, especially residential properties, in Hong Kong has remained strong in the past few years. Such strong demand is often coupled with volatility in market conditions and fluctuations in property prices. There have been concerns that the Hong Kong property market has been overheated. In response, the Hong Kong Government has formulated policies and implemented relevant measures to slow down the residential property market and inflation of property prices. Such policies and measures may lead to changes in the market conditions and affect the sustainability and growth of the property market in Hong Kong. In fact, the property market in Hong Kong is already showing some signs of downward adjustment with residential property prices and rent level decreasing.

We cannot assure you that the property market in Hong Kong will continue to grow at past levels or will not decline in the future. Any potential decline in the demand for properties or property prices in Hong Kong may have a material adverse impact on our business, financial condition, results of operations and growth prospects.

### **We may not be able to identify and acquire land bank which is suitable and desirable for our future development.**

We have a proven track record in property sales and are primarily involved in the development of residential and commercial properties for sale. As at the Latest Practicable Date, we had four properties under development with an aggregate expected GFA of approximately 489,000 sq.ft. and one property held for future development with an expected GFA of approximately 272,000 sq.ft.. Our business is therefore dependent upon, among other things, our ability to identify and acquire suitable land bank and our ability to generate profit from the sale and lease of properties developed on such land. We need to replenish and increase our land bank at an appropriate pace, and target those land parcels of suitable size and appropriate scope of usage, and in strategic locations, in order to position ourselves for sustainable growth in our business.

It may be difficult to obtain suitable land in Hong Kong at commercially reasonable prices due to the limited supply of land available for development and the increase in the costs of acquiring land in Hong Kong. Competition among property developers in Hong Kong for acquiring land has also intensified in recent years. The Hong Kong Government controls the land supply and regulates various aspects of the process through which land is acquired and developed. Such land supply policies implemented by the Hong Kong Government have a direct impact on our ability to acquire land and our costs of acquisition. These regulatory measures may also further intensify the competition for securing land among property developers.

We cannot assure you that we will be able to successfully acquire any or all of the land for our future development projects. Any failure to acquire land bank suitable for our future development, or any further changes in government policies with regard to land supply and development may have a material adverse impact on our business, financial condition, results of operations and growth prospects.

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**We generate revenue principally from the sale of properties, which depends on a number of factors including the schedule of our property development and the timing of property sales. Our profitability may fluctuate significantly between different periods, as our financial performance for a particularly period depends on the mix of properties available for sale.**

We derive our revenue primarily from the sale of properties. For the years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015, approximately HK\$469.2 million, HK\$1,359.3 million, HK\$1,208.6 million and HK\$518.3 million was generated from the sale of properties, representing approximately 92.0%, 97.8%, 98.4% and 96.9% of our total revenue, respectively. Our results of operations may fluctuate due to factors such as the schedule of our property development and the timing of property sales. Further, our profitability may fluctuate significantly between different periods, as our financial performance for a particular period depends on the mix of properties available for sale.

For properties developed by us, we generally recognise revenue from the sale of a property upon completion of the construction and delivery of the property to the purchaser. Due to capital requirements for land acquisition and construction, limited supply of land reserves and the time required for completing a development project, we can undertake only a limited number of property development projects at a time. In addition, since the timing of the delivery of our properties varies according to our construction and/or sales timetable, our revenue and results of operations may vary significantly from period to period depending on the number of properties delivered during a specific period. Accordingly, our results of operations for any given period may not be indicative of the actual demand of our properties or sales achieved during such period. Our revenue and profit during any given period generally reflect properties purchased by our customers at a time in the past before delivery of the properties. Accordingly, our results of operations are not necessarily indicative of results that may be expected for any future period and may lead to fluctuations in the price of our Shares. According to the current development progress of the Ma Kam Street Project, the Hang Kwong Street Project and the Tai Po Road Project, we expect that the pre-sale of the three projects will be held in the fourth quarter of 2016, first quarter of 2017 and fourth quarter of 2017, respectively. As none of our properties under development is expected to be ready for completion until the fourth quarter of 2017, it is expected that our results of operations for the year ending 31 March 2017 may decrease significantly.

Fluctuations in our operating results may also be caused by other factors, such as changes in market demand for our properties. In addition, the cyclical property market affects the optimal timing for the acquisition of land, the planning of development and the sale of properties. As our results of operations relating to property development activities may be susceptible to significant fluctuations, our period-to-period comparisons of results of operations and cash flow positions should not be taken as meaningful measures of our financial performance for any specific period. Further, our property development projects may be delayed or adversely affected by a combination of factors beyond our control, which may in turn adversely affect our revenue recognition and consequently our cash flow and results of operations.

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**We recorded a non-recurring fair value gain of approximately HK\$107.7 million for the year ended 31 March 2015 attributable to reclassification of a property held for sale into an investment property. However, our investment properties may incur negative fair value change in the future, which may adversely affect our profitability.**

We recorded a non-recurring fair value gain of approximately HK\$107.7 million for the year ended 31 March 2015 as a result of the transfer of a property, namely the shop on the ground floor of one of our property development projects, 726 Nathan Road, from the classification of property held for sale to investment property. For details, please refer to the paragraph headed “Financial Information — Description of Certain Key Items of the Combined Statements of Profit or Loss and Other Comprehensive Income — Fair value gain upon transfer of a property held for sale to an investment property” in this [REDACTED].

The fair value of our investment properties is subject to change. For the years ended 31 March 2013 and 2015 and the six months ended 30 September 2015, we recorded a fair value gain of approximately HK\$68.3 million, HK\$47.6 million and HK\$39.2 million, respectively. However, we recorded a fair value loss of approximately HK\$25.3 million for the year ended 31 March 2014. Our profitability may be adversely affected by negative fair value change of our investment properties in the future.

**We may be unable to obtain, or may suffer material delays in obtaining, the relevant government approvals or be unable to take possession of the land parcels for our property development projects.**

The property industry in Hong Kong is regulated by the government. In general, property developers are required to obtain the relevant certificates and other approvals at various stages of the property development process. The grant of such certificates and other approvals is dependent on meeting certain conditions set by the relevant government authorities, which are often subject to their discretion and to changes in new laws, regulations and policies, especially those with respect to the property industry.

We may experience:

- problems or delays in obtaining the necessary government approvals, fulfilling the conditions required for obtaining the relevant approvals or taking possession of the land parcels for our property development projects;
- problems or delays in fulfilling the obligations under the government leases in the future including the time for commencement and completion of development; and
- difficulties in adapting to and complying with any new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to the granting of the relevant approvals.

If we are unable to obtain the relevant approvals or to fulfil the conditions of those approvals or take possession of the land parcels for our property development projects, such projects may not be able to proceed on schedule or at all and our business, results of operations and financial condition may be adversely affected.

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**We rely on external construction companies for the construction-related works of our property development projects and these construction companies may fail to provide satisfactory services which adhere to our quality and safety standards and in a timely manner, or at all.**

We rely on external construction companies for the construction-related works of all of our property development projects. Such works include structural engineering, internal decoration, landscaping, and electrical and mechanical engineering. We generally select those construction companies through our streamlined selection process and evaluate them based on factors including, among other things, their competence, market reputation and our prior relationship with them, if any. Completion of our projects is subject to the satisfactory performance of the contractual obligations by these construction companies, including their adherence to our quality and safety standards and the pre-agreed schedule for completion. Although we strictly monitor the progress and quality of the construction companies, any such construction companies may fail to provide satisfactory services, which adhere to our quality and safety standards or within the timeline required by us. If the performance of any construction company proves unsatisfactory, or if any of them is in breach of its contractual obligations, we may need to replace such construction company or take other remedial actions which may incur additional costs and affect the progress of construction of our projects and in turn adversely affecting our reputation, financial position and business operations.

**Our results of operations may be adversely affected by labour shortages and/or the increase in the costs of labour.**

As a result of economic growth and the prosperity of infrastructure development in Hong Kong, competition for construction workers is intense in recent years, which caused the wages for construction workers to increase as well. According to the DTZ Market Report, the costs of labour have increased significantly during the period between 2009 and 2015, largely due to a general labour shortage in the construction sector caused by several ongoing major infrastructure projects in Hong Kong such as Central Reclamation, Hong Kong Zhuhai Macau Bridge, Kowloon West High Speed Rail project, etc. In addition, with the overall improvement of living standards in Hong Kong, we expect that the costs of labour will continue to increase in the foreseeable future. Increase in the costs of labour may prompt our contractors to increase their fee quotes for our new property development projects in the future. Besides, if our contractors fail to retain their existing labour or recruit sufficient labour in a timely manner, or at all, we may not be able to complete our development projects on schedule and may thus suffer losses and damages which may in turn adversely affect our business, financial condition and results of operations.

**Increase in the costs of construction materials and the use of substandard construction materials by our contractors may have an adverse impact on us.**

We rely on external construction companies to procure the construction materials, for example concrete, cement, steel, etc. We cannot assure you that the costs of construction materials will remain stable in the future. Any increase in the costs of construction materials may prompt the construction companies to increase their fee quotes for our new property development projects in the future. Further, there is no guarantee that the quality of construction materials supplied to our Group will always meet the standards we required, and we may have to replace those construction materials at additional costs or suffer delays in our development schedules. The occurrence of any of the aforesaid may adversely affect our reputation, business, financial condition and results of operations.

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**We may not be able to complete or deliver our property development projects on time, on budget, or at all.**

The schedule and costs of our development projects depend on a number of factors, including:

- our ability to finance the construction;
- the performance and efficiency of our third party constructors;
- changes in market conditions, economic downturns and decreases in business and consumer sentiment in general;
- delays in obtaining the necessary licences, permits or approvals from the government;
- changes in the timing of or results of property pre-sales;
- changes in relevant regulations and government policies;
- relocation of existing residents and/or demolition of existing buildings;
- shortages of materials, equipment, contractors and labour;
- labour disputes;
- construction accidents;
- natural catastrophes and adverse weather conditions;
- structural issues, whether natural or man-made, in the foundation of our properties or in the areas surrounding our properties;
- the involvement of non-government organisations or other parties opposing a property development project for environmental or other reasons; and
- other unforeseen problems and circumstances.

Construction delays or failure to complete the construction of a project according to our planned specifications, schedule or budget as a result of the above factors may affect our results of operations and financial position and may also adversely affect our reputation and customers’ satisfaction. We cannot assure you that we will not experience any significant delays in the completion or delivery of our development projects, or that we will not be subject to any liabilities to our customers, tenants or relevant governmental authorities for any such delays. Liabilities arising from any delays in the completion or delivery of our development projects may adversely affect our business, financial condition, results of operations and growth prospects.

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### **We may not have adequate capital resources to fund our land acquisitions and future property developments.**

Property development is capital intensive. Our property development projects are generally funded through a combination of pre-sale and sale proceeds, borrowings from banks and other income derived from sale of our properties for investment. We expect to continue to fund our projects through these sources. Nevertheless, we cannot assure you that such funds will always be sufficient or that any additional financing can be obtained on commercially reasonable terms, or at all.

Our ability to obtain adequate financing for land acquisition and property development is dependent on a number of factors which are beyond our control, such as general economic conditions, our financial performance, availability of credit from banks and monetary policies in Hong Kong. We cannot assure you that our existing major lenders will not change their lending policies, increase our funding costs, or adopt a more cautious credit stance as a result of the overall economic climate, or any other factors that may limit our ability to obtain credit on favourable terms and affect our options for obtaining liquidity. If we cannot source sufficient funds, or any additional financing cannot be obtained on commercially reasonable terms, our business, results of operations, financial conditions and growth prospect will be adversely affected.

### **Compliance obligations and costs relating to our properties could have an adverse effect on our business.**

In Hong Kong, structural alterations of properties are subject to prior approval by the Building Authority. The Building Authority may issue warning notices and/or building orders in relation to certain parts of a property or the common areas of a building if there are alteration works carried out without the required permits or consents. If the subject matter as stated in the warning notice is not rectified within the specified period, the Building Authority may issue a building order which may constitute title defects in respect of the relevant property, unless and until the relevant requirements as set out in the building order have been duly complied with. The works required to comply with warning notices and/or building orders may involve substantial costs to be borne by the owners.

Under Hong Kong law, the existence of these title defects and other title issues do not prevent the relevant properties being sold, purchased, or being suitable for acceptance by banks as security for granting mortgages. Nevertheless, any title defect on the property may have adverse effect on the value of such property. If such property has been contracted for sale with a prospective purchaser, such title defect may entitle the prospective purchaser to refuse completion of the sale and purchase transaction.

We cannot assure you that our properties held for investment or acquired properties held for sale or the common areas of the building in which such properties are situated will not be subject to any warning notice or building order. If any warning notice or building order is issued against our properties and the subject matter cannot be rectified by us and/or other owners of the building in a timely manner, or at all, the sale of our properties may be affected which may in turn have material adverse impact on our business, financial condition and results of operations.



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### **Our indebtedness could have an adverse effect on our financial condition and results of operations.**

We maintain a certain level of indebtedness to finance our operations. Our total outstanding bank loans and other loans as at 31 March 2013, 2014, 2015 and 30 September 2015 were, in aggregate, HK\$1,538.6 million, HK\$1,197.1 million, HK\$2,340.2 million and HK\$2,136.5 million, respectively. Our indebtedness could have an adverse effect on us, for example by:

- requiring us to maintain certain financial ratios;
- requiring us to dedicate a significant portion of our cash flow from operations to repayments of our debt, thereby reducing the availability of our cash flow to fund working capital or expand our business;
- increasing our vulnerability to adverse general economic or industry conditions;
- limiting our flexibility in planning for or reacting to changes in our business or the industry in which we operate;
- limiting our ability to raise additional funds or equity capital in the future or increasing the cost of such funding; and
- restricting us from making strategic acquisitions or taking advantage of business opportunities.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend on our future operating performance, which will be affected by, among other things, prevailing economic conditions, governmental regulations, the demand for properties in Hong Kong and other factors, many of which are beyond our control. We may not be able to generate sufficient cash flow to pay our anticipated operating expenses and to service our debts, in which case we may be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, disposing of our assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be implemented on satisfactory terms, or at all, and, even when implemented, may result in an adverse effect on our business, financial condition and results of operations.

### **We are subject to certain restrictive covenants and risks normally associated with borrowings which may limit or otherwise materially and adversely affect our business, results of operations and financial condition.**

We require substantial capital investment for our business. We have funded and will continue to fund our business operation principally through (i) proceeds generated from pre-sale and sale of our properties; and (ii) bank borrowings. Our bank borrowings are subject to certain restrictive, customary affirmative and/or negative covenants, details of which are set out in the paragraph headed “Financial Information — Indebtedness Statement — Indebtedness” in this [REDACTED]. We cannot assure you that we will be able to abide by all of the affirmative and restrictive covenants of all of our loan agreements in the future or obtain lenders’ consents or waivers in a timely manner or at all.



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Our inability to comply with affirmative covenants or required financial ratios or the violation of any restrictive covenants may constitute an event of default under the terms of our borrowings. In the event of default, our lenders would be entitled to request for early repayment of all or any part of our outstanding indebtedness which in turn will adversely impact our business, financial condition, results of operations and growth prospects.

### **Our profit and results of operations are subject to changes in interest rates.**

We finance our property development projects primarily through proceeds from pre-sales and sales, bank borrowings and other income derived from sale of our properties for investment. We have incurred, and expect to continue to incur, a significant amount of interest expenses relating to our bank loans and other loans. Accordingly, changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our profitability and results of operations. For the years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015, the total interest expenses on bank and other borrowings (before capitalisation of interests) were HK\$27.5 million, HK\$40.4 million, HK\$54.1 million and HK\$33.3 million, respectively.

Our borrowings are denominated in Hong Kong dollars. The interest rates on some of our outstanding Hong Kong dollar denominated borrowings are benchmarked to the Hong Kong interbank offered rates for Hong Kong dollars. We cannot assure you that the benchmark interest rate will not increase in the future, which would increase our financing costs and interest expense. Any increase in the interest rates will increase our financing costs and may adversely affect our business, financial condition, results of operations and growth prospects.

### **We experienced net operating cash outflow for the year ended 31 March 2015.**

We had net cash outflow from operating activities of approximately HK\$1,126.2 million for the year ended 31 March 2015. For details of the reasons attributable to the net cash outflow from operating activities, please refer to the sub-section headed “Financial Information — Liquidity and Capital Resources — Cash flows — Cash flows from/(used in) operating activities” in this [REDACTED]. While our Directors believe that we have sufficient funds to finance our current working capital requirements, our operating cash flows may be adversely affected by factors that are beyond our control. We cannot assure you that we will not experience net operating cash outflow in the future. If we are unable to maintain adequate cash inflows, we may default on our payment obligations and may not be able to meet our capital expenditure requirements which may in turn have a material adverse impact on our business, financial position, results of operations and prospects.

### **We recorded net current liabilities as at 31 March 2014 and we cannot assure you that we will not experience net current liabilities in the future.**

Property development is capital intensive and we have relied on a combination of funds generated from our operations and bank loans to finance our property development projects. As at 31 March 2014, we recorded net current liabilities of approximately HK\$532.3 million, which was primarily attributable to our continuous business expansion in 2013 and financing in the acquisition of Riviera Plaza in Tsuen Wan. We cannot assure you that we will not record net current liabilities in the future which may have a material adverse impact on our business, financial condition and results of operations.

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### **We may face significant risks before realising any benefits from property development.**

Our principal business involves the development of properties for sale. Property development typically requires substantial capital outlay during the land acquisition and construction phases and may take a number of years before positive cash flows would be generated from a completed property development. Depending on the size of the development, the time span for completing a property development usually lasts for a number of years. Consequently, changes in the business environment during the length of the project may affect the revenue and costs of the development, which in turn may affect the profitability of the project. Factors that may affect the profitability of a project include the risk that the receipt of government approvals may take more time than expected, the failure to complete construction according to original specifications and schedule or budget of the relevant project. The revenue generated by and value of a property development project may be adversely affected by a number of factors, including the international, national, regional and local economic climate, local real estate conditions, competition from other available properties and increased business and operating costs. If any of the property development risks described above materialises, our returns on investments may be lower than originally expected and our business, financial condition, results of operations and prospects may be materially and adversely affected.

### **The appraised values of our properties may be different from the actual realisable value.**

The appraised values of our properties as contained in “Appendix III — Property Valuation” to this [REDACTED] are based on assumptions that include elements of subjectivity and uncertainty and may be subject to substantial fluctuations. Some of the key assumptions include:

- all the consents, approvals and licences from the relevant government authorities for the development scheme have been obtained without onerous conditions or delays;
- the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities;
- our properties were sold on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the relevant properties; and
- we have the right to sell, mortgage, charge or otherwise dispose of our properties to any person without payment of any additional premium or substantial fee to government authorities.

If any of the assumptions used by the Property Valuer in reaching the appraised values of our properties proves to be inaccurate, the appraised values of our property projects may be materially affected. As a result, the appraised values of our properties may differ materially from the price we could receive in an actual sale of the properties in the market and should not be taken as their actual realisable value or an estimation of their realisable value. For example, the Hong Kong property market is at or near historic peaks and has in the past been highly volatile and suffered significant falls in prices. Unforeseeable changes in the development of property development projects, as well as national and local economic conditions, may affect the value of our properties. In particular, the valuation of our

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properties for investment could stagnate or even decrease if the market for comparable properties in the places where we operate experiences a downturn as a result of government austerity measures with respect to the property sector, any deterioration in the macroeconomic environment or for other reasons.

**Our profitability and results of operations may be affected by the profitability of our investment properties.**

Our investment properties include commercial properties and an industrial property for leasing which are held for long-term investment. For the years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015, our rental income amounted to HK\$39.2 million, HK\$26.9 million, HK\$18.1 million and HK\$16.0 million, representing approximately 7.7%, 1.9%, 1.5% and 3.0% of our total revenue, respectively. We are subject to risks associated with the ownership of such properties including, among other things, changes in market rental levels, competition for tenants, costs resulting from on-going maintenance and repair and inability to collect rent from tenants or renew leases with tenants on favourable terms, or at all. If there is a significant downturn in the rental market for commercial and industrial properties in Hong Kong, the demand for our rental properties and the amount of our rental income may be affected, which may in turn cause an adverse impact on our business, financial condition, results of operations and growth prospects.

**We may not be able to continue to attract and retain quality tenants for our investment properties.**

Our investment properties compete for tenants with other property owners on factors including, among other things, location, rental rates and other lease terms. We cannot assure you that our existing or prospective tenants will not choose any other properties of other property owners. Any future increase in the supply of properties which compete with ours would further increase the competition for tenants and as a result, we may have to reduce rent or incur additional costs to make our properties more attractive. If we are not able to retain our existing tenants or attract new tenants to replace those that leave our vacant properties, our occupancy rates and our rental income may decline, which may in turn adversely affect our business, financial condition and results of operations.

**The illiquidity of properties for investment and the lack of alternative uses of such properties may limit our ability to respond to adverse changes in the performance of our property investment business.**

As at the Latest Practicable Date, we held (i) eight properties held for investment comprising seven commercial properties and one industrial property, with a total value of HK\$598.5 million valued by the Property Valuer as at 31 December 2015; and (ii) one acquired property held for sale, which was a commercial property comprising 89 car parking spaces in Shatin Centre, with a total value of approximately HK\$88.7 million valued by the Property Valuer as at 31 December 2015. Property investments are in general relatively illiquid and as a result, our ability to sell our properties for investment promptly in response to the changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any of our properties for investment for the price or on the terms set by us, or whether any price or other terms offered by a potential purchaser would be acceptable to us. We also cannot predict the length of time to be spent to find a purchaser and to complete the sale of a property. Further, we may also need to incur additional expenses in managing and maintaining our properties before selling them. We cannot assure you that financing for such

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expenditures will be available when needed, or at all. In addition, if we sell a property for investment during the term of the relevant tenancy agreement, we may have to pay termination fees to our retail tenants.

Besides, properties for investment may not be readily convertible to alternative uses as such conversion requires extensive governmental approvals and involves substantial capital expenditures for the purpose of renovation, reconfiguration and refurbishment. We cannot assure you that we will be able to obtain the necessary approvals and sufficient funds to carry out the required conversion. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties for investment may adversely affect our business, financial conditions and results of operations.

### **Our success depends on the continued services of our senior management team and employees.**

Our success and growth have been, and will continue to be, largely dependent upon the continuing services of our senior management and other qualified employees. Our executive and non-executive Directors and senior management team is experienced in the property market in Hong Kong. For example, our executive Director, Mr. Wong Yiu Hung Gary, has over 30 years of experience in the property development industry, and our executive Director, Mr. Tang Ho Hong, has about 5 years of experience in property acquisition, project development and management. Mr. Chan Chun Hong, our non-executive Director and chairman of our Board, has joined the Parentco Group since March 1997. He has gained extensive experience in the property market and deep understanding of our operations. Ms. Ching Tak Won, Teresa, the general manager of our sales and marketing department, has more than 11 years of experience in sales and marketing in the property industry in Hong Kong. For more details, please refer to the section headed “Directors and Senior Management” in this [REDACTED].

Competition for experienced and skilled personnel in the property industry is intense. If members of our management team leave the Group and we are unable to find suitable replacements in a timely manner, or at all, our business could be adversely affected. In addition, as we continue to expand our business, we will need to employ more skilled and qualified employees. If we cannot identify, hire, train and retain suitably skilled and qualified employees, our business, financial condition, results of operations and growth prospects may be adversely affected.

### **We may be involved in legal or other disputes arising out of our operations from time to time and may face significant liabilities as a result.**

We may from time to time be involved in disputes with various parties involved in the development and sale of our properties, and leasing and sale of our properties for investment, such as contractors, construction workers, suppliers, purchasers, tenants or other parties. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurring of substantial costs, and diversion of our resources. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings or unfavourable decrees that may result in liabilities and cause delays to our property developments. We may also be involved in disputes or legal proceedings in relation to delays in the completion and delivery of our development projects. The occurrence of any of the above may adversely affect our business, financial condition, results of operations and growth prospects.

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### **We may suffer losses arising from uninsured risk.**

We maintain insurance in line with the general industry practice. In addition to statutory required insurances, our Group purchases other insurances, where our management considers necessary, to cover the major risks identified by our Group. For further details, please see the sub-section headed “Business — Insurance” in this [REDACTED]. Our insurance may not fully indemnify us for all potential losses, damages or liabilities related to our properties since there are certain exposures which are excluded under some of our insurance programmes or for which insurance is not available on commercially reasonable terms, such as losses suffered due to war, terrorism, pollution, fraud, professional negligence and acts of God. If we suffer any losses, damages or liabilities in the course of our operations arising from non-indemnifiable loss or events for which we do not have any or adequate insurance cover, we may not have sufficient funds to cover any such non-indemnifiable losses, damages or liabilities or to replace any property that has been destroyed which may in turn adversely affect our business, financial condition and results of operations.

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

#### **We face increasing competition with other property developers in Hong Kong.**

There are a large number of property developers in Hong Kong. Competition among property developers in Hong Kong is intense and we expect the level of competition will increase in the foreseeable future, especially as new market players enter into the market and existing market players expand, merge, restructure and become more established. This may result in, among other things, an increase in the costs of land acquisition, a slowdown in the rate at which the relevant government authorities approve new property developments, an increase in construction costs and competition for high quality contractors and qualified employees. If we cannot respond to these changes more swiftly or effectively than our competitors do, our business, financial condition and results of operations will be adversely affected.

Our Group competes with other property developers in bidding for development sites at government auctions and in public and private tenders as well as in private sale of prospective development properties. We also compete with our competitors in the subsequent selling or leasing of the properties across a range of other factors, including location, transportation, infrastructure, government tax and other incentives, design, quality of premises, accommodations and amenities, brand recognition, maintenance and supporting services, sales prices, rental rates and other terms. There is no assurance that we can:

- retain our current and potential tenants or purchasers and have no difficulty in selling, renewing leases on or re-letting properties;
- maintain our sales prices or rental rates at the most desirable level; and
- make our properties more attractive and stand out from those of our competitors.

If we are unable to compete effectively and consistently, we may not be able to sell or lease our properties on favourable terms, or at all. Our occupancy rates may decline and we may not be able to recover our property development costs which in turn may have a material adverse impact on our business, financial condition, results of operations and growth prospect.

## RISK FACTORS

**Our business is subject to government policies and regulations, and in particular, we are susceptible to changes in policies related to the property industry in Hong Kong.**

Our business is subject to government policies and regulations, and in particular, we are susceptible to changes in policies related to the Hong Kong property industry. Since 2011, the Hong Kong Government has implemented a series of policies and regulations to slow down the residential property market and inflation of property prices, as well as to dampen property speculation. These policies and regulations include:

- increased mortgage down payments;
- additional stamp duties on property sales;
- supply of land controls;
- residential property financing;
- building regulations;
- suspension of the Capital Investment Entrant Scheme (an immigration scheme which allows an individual to gain residency status in Hong Kong through capital investments); and
- other fiscal policies.

In addition, the Hong Kong Government has indicated in the 2015 Hong Kong Government Policy Address that it intends to speed up the development of public housing and public rental housing (“PRH”) and make available a number of Home Ownership Scheme flats, subsidised sales flats and PRH for sales. In the 2016 Hong Kong Government Policy Address, the Hong Kong Government forecasted that about 76,700 PRH units and about 20,400 subsidised sale flats will be produced in the next five years. The Hong Kong Government also intends to continue to maintain the development of the private property market through steady and sustained land supply and implementation of certain management measures. These policies, regulations and plans create a lot of uncertainty and could materially and adversely affect the Hong Kong property market, the supply of available land or the occupancy rates of our investment properties. If the Hong Kong Government adopts additional and more stringent policies or regulations related to the property industry in the future, our business, financial condition, results of operations and growth prospects may be adversely affected.

**Our business will be adversely affected if mortgage financing becomes more costly or otherwise less attractive or available.**

Most purchasers of our properties rely on mortgages to fund their purchases. A number of factors which are beyond our control may affect the market for and the availability of mortgages in Hong Kong.

Interest rates in Hong Kong have been relatively stable in the past few years. However, in December 2015, the Federal Reserve of the United States decided to raise the federal funds rate by 0.25% and indicated that the rate level is expected to increase gradually in the next few years. Banks in Hong Kong may follow and raise interest rates in the future, and thus the cost of mortgage financing may be significantly increased which in turn may affect the affordability of purchasers in buying



## **RISK FACTORS**

properties. Further, the Hong Kong Government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing less available or less attractive to potential property purchasers. If the cost of mortgage financing increases and/or the availability or attractiveness of mortgage financing is reduced or limited, many of our potential purchasers may not be able to purchase our properties and, as a result, our business, financial condition and results of operations may be adversely affected.

### **The property development business is subject to claims under statutory quality warranties and other claims from purchasers of our properties.**

In general, property development companies must provide certain quality warranties for the properties they construct or sell. We may receive requests from purchasers of our properties to rectify minor defects of our completed property development projects and we cannot assure you that we will not receive claims from purchasers of our properties of this nature in the future. Although we receive quality warranties from our third party contractors with respect to our property development projects, if a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third party contractors in a timely manner, or at all, or if the money retained by us to cover our payment obligations under the quality warranties is not sufficient, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which may adversely affect our business, financial condition, results of operations, reputation and growth prospects.

In addition, we may be subject to other types of claims from purchasers of our properties from time to time during our ordinary course of business, such as claims in relation to the delay in delivery of property title documents due to various reasons. We cannot assure you that we will not face any significant claims from purchasers of our properties in the future, which may result in significant expenses to resolve such claims, or if we face delays in remedying the related defects, harm our reputation and affect our business, financial condition, results of operations and growth prospects.

### **Any inability to comply with our environmental responsibilities may subject us to liabilities.**

We are subject to increasingly stringent environmental protection laws and regulations and there is a risk of shutdown by governmental authorities of any construction sites not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. In addition, there is a growing awareness of environmental issues and we may sometimes be expected to meet a standard which is higher than the requirement under the prevailing environmental laws and regulations. The environmental protection measures we have adopted, including conducting environmental assessments on our property construction projects and hiring construction contractors who have good environmental protection and safety track records and requiring them to comply with the relevant laws and regulations on environmental protection and safety, may be ineffective. In addition, there is no assurance that more stringent environmental protection requirements will not be imposed in the future. If we are unable to comply with existing or future environmental laws and regulations or are unable to meet public expectations in relation to environmental matters, our reputation may be damaged or we may be required to pay penalties or fines or take remedial actions and our operations may be suspended, any of which may adversely affect our business, financial condition, results of operations and growth prospects.



## **RISK FACTORS**

### **RISKS RELATING TO THE [REDACTED] AND THE PERFORMANCE OF OUR SHARES**

**There is no existing public market for our Shares and their liquidity and market price may fluctuate.**

Prior to the [REDACTED] and the Spin-off, there has been no public market for our Shares. The [REDACTED] may not serve as an indicator of the price of the Shares traded on the Stock Exchange in the future. There is no assurance that an active trading market of the Shares will develop upon the [REDACTED] or if it does develop, that it may be sustained for any period of time after the [REDACTED]. Upon the [REDACTED], the transaction volume and market price of the Shares may be affected by various factors, including:

- the general market conditions;
- variations in our income, profitability and cash flow;
- announcement of new services and/or investment plans;
- change of senior management personnel; and
- strategic alliance and/or acquisitions.

All such factors may result in significant fluctuations in the market price and/or transaction volume of the Shares. There is no assurance that such changes will not occur.

**Future financing may cause a dilution in your shareholding or place restrictions on our operations.**

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised by means of issuing new equity securities in the future to new and/or existing Shareholders after the [REDACTED], such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure on the market price of the Shares. Even if additional funds are raised by means of debt financing, we may have restrictions imposed on us through such debt financing arrangements which may (i) further limit our ability to pay dividends or require us to seek consents for the payment of dividends; (ii) increase our vulnerability to general adverse economic and industry conditions; and (iii) limit our flexibility in planning for, or reacting to, changes in our business.

**New business strategies formulated in the future could disrupt our Company’s ongoing business and present risks not originally contemplated.**

We may in the future formulate new business strategies. Such endeavours may involve mergers and acquisitions which involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenue to offset the liabilities assumed and expenses associated with the strategies, inadequate return of capital and unidentified issues not discovered in our due diligence. There is no assurance that such strategies and initiatives will be implemented successfully and will not adversely affect our financial conditions and operating results.

## **RISK FACTORS**

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

For the years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015, our Group declared dividends of approximately HK\$244.0 million, HK\$253.7 million, HK\$477.9 million and HK\$170.0 million, respectively. However, our Group’s historical dividend distribution should not be used as a reference or basis to determine the level of dividends that may be declared and paid by our Group in the future. Distributions of dividends would require the recommendations of our Board and approval of our Shareholders. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including our results of operations, cash flow, financial condition, operating and capital expenditure requirements, distributable profits, requirements of our constitutional documents, and any applicable laws and regulations, market conditions, our strategic plans and prospects for business development and any other factors as may be determined by our Board from time to time. As a result, there is no assurance as to whether, when and in what form we will pay dividends in the future.

**Future sale of the Shares or major divestment of the Shares by the Controlling Shareholders or substantial shareholders of our Company could adversely affect the Share price.**

The sale of a significant number of Shares in the public market after the [REDACTED], or the perception that such sale may occur, could adversely affect the market price of the Shares. Except as otherwise described in the section headed “[REDACTED]” in this [REDACTED] and the restrictions set out by the Listing Rules, there are no restrictions imposed on our Controlling Shareholders or substantial shareholders of our Company to dispose of their shareholdings. Any major disposal of Shares by any of our Controlling Shareholders or substantial shareholders of our Company may cause the market price of the Shares to fall. In addition, these disposals may make it more difficult for our Group to issue new Shares in the future at a time and price our Directors deem appropriate, thereby limiting our Group’s ability to raise capital.

### **RISKS RELATING TO STATEMENTS MADE IN THIS [REDACTED]**

**No undue reliance should be placed by prospective investors on industry and market overview and statistics derived from official government publications contained in this [REDACTED].**

Certain statistics, facts, data and forecasts presented in the section headed “Industry Overview” and elsewhere in this [REDACTED] including those relating to Hong Kong, the Hong Kong economy and the property market industry have been derived, in part, from various publications and industry-related sources prepared by governmental officials or Independent Third Parties. Such statistics, facts, data and forecasts have not been independently verified by our Group, our Directors, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], nor any of the parties involved in the [REDACTED] and no representation is given as to their accuracy and completeness, as such these information should not be unduly relied upon.

**Forward-looking statements contained in this [REDACTED] are subject to risks and uncertainties.**

This [REDACTED] contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “may”, “should” or “will” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and

## RISK FACTORS

capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this [REDACTED] should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed “Forward-looking Statements” in this [REDACTED] for further details.

**Investors should read this entire [REDACTED] carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the [REDACTED] including, in particular, any financial projections, valuations or other forward looking statement.**

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