

# TARGET

## Intelligence Report

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S A T U R D A Y

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### **CHI KAN HOLDINGS LTD: PUTTING A LARGE PERCENTAGE OF ONE'S EGGS INTO ONE BASKET IS RARELY A CLEVER POLICY TO FOLLOW**

In the summary of the Share Offer Prospectus of Chi Kan Holdings Ltd (智勤控股有限公司) (Code: 9913, Main Board, The Stock Exchange of Hongkong Ltd), Management makes no bones of its present and erelong prospective problems.

Management, at Page 10 of the Share Offer Prospectus, informs prospective investors, under the sub-heading, ***‘Material uncertainty relating to going concern for South Shore Holdings Limited’***:

*‘South Shore Holdings Limited (“South Shore”), a company listed on the Main Board (stock code: 577), is the holding company of Paul Y. Group\*, who is one of our Group’s top five customers during the Track Record Period (the 36 months, ended March 31, 2020). Paul Y. Group accounted for approximately 8.2%, 20.8% and 19.6% of our revenue for FY2018, FY2019 and FY2020 respectively. Based on the 2020 interim report of South Shore published in December 2019 (“South Shore’s 2020 Interim Report”), South Shore incurred a net loss of approximately HK\$499.6 million for the six months ended 30 September 2019 and South Shore’s current liabilities exceeded its current assets by approximately HK\$4,621.4 million as at 30 September 2019. In addition, as disclosed in South Shore’s 2020 Interim Report, South Shore had not complied with certain covenants in respect of bank borrowings in the amount of approximately HK\$2,941.9 million. ...*

*‘Furthermore, in April 2020, South Shore announced that a bank issued a demand for repayment of aggregate principal and interest of approximately HK\$470 million, and on account of South Shore’s failure to repay, accelerated its demand for all additional principal and interest under a facility agreement, in the amount of approximately HK\$2,481 million (in aggregate amounting to approximately HK\$2,951 million as at 31 March 2020), which South Shore is currently unable to repay. South Shore has applied to the bank for a standstill, seeking assurance from the bank that it will not take imminent steps either to enforce its security over certain hotel assets or to liquidate South Shore, mindful of the severe adverse effect of COVID-19 on the economy. South Shore considered that*

*its defaults and the bank's demand for all amounts outstanding under the facility agreement do not trigger direct cross-defaults under the facility agreements deployed in the conduct of South Shore's other principal business, which includes that conducted by Paul Y. Group.*

*'On 26 June 2020, South Shore announced that, based on the unaudited consolidated financial information of Paul Y. Engineering Group Limited (保華建業集團有限公司) (a major subsidiary of South Shore comprising Paul Y. Group) for the year ended 31 March 2020, the profit for the year attributable to owners of Paul Y. Engineering Group Limited was approximately HK\$35 million, the revenue of Paul Y. Engineering Group Limited was approximately HK\$10,982 million and the secured new contracts of Paul Y. Engineering Group Limited in aggregate value were about HK\$15,770 million. As at 31 March 2020, the net assets of Paul Y. Engineering Group Limited was (sic) approximately HK\$815 million, the total value of contracts on hand of Paul Y. Engineering Group Limited was about HK\$44,307 million and the value of works remaining of Paul Y. Engineering Group Limited was about HK\$26,633 million.'*

- \* Paul Y Group refers to Paul Y Builders Ltd (保華建造有限公司), Paul Y Construction and Engineering Company Ltd (保華建築工程有限公司), Paul Y Construction Company Ltd (保華建築有限公司) and Paul Y General Contractors Ltd (保華建築營造有限公司), all of which are subsidiaries of South Shore Holdings Ltd (南岸集團有限公司), a company, whose shares are listed on the Main Board of The Stock Exchange of Hongkong Ltd, being Stock Code: 577.

The Paul Y Group was responsible for 19.60 percent of the Total Revenue of Chi Kan Holdings Ltd in respect of the 2020 Financial Year, ended March 31, 2020, (2019: 20.80 percent of the Total Revenue of Chi Kan Holdings Ltd) and, as such, it was second-largest customer of Chi Kan Holdings Ltd.

### **The Initial Public Offering (IPO) Of Chi Kan Holdings Ltd**

Management of Chi Kan Holdings Ltd published and disseminated its Share Offer Prospectus on Thursday, July 30, 2020.

Investors of the HKSAR were Offered the opportunity to subscribe to 25 million Offer Shares (the HKSAR Public Offer Shares tranche) and 225 million Offer Shares were (presumably) dedicated to whet the appetite of International Investors – Institutional Investors, Professional Investors and select, Well-Heeled Investors, along with this class of investors' corporate entities in which equity control had been vested – via Share Placements (the Placing Offer Shares tranche).

Management had Offered the 250 million, one-cent Offer Shares in an Initial Public Offering at the Indicative Offer Price Per Share, ranging from a low of 52 cents to a high of 64 cents.

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