

## BUSINESS

### OVERVIEW

Established in 1992, we are an IT service provider based in Hong Kong. Our customers include government and statutory bodies, local and multinational enterprises across various industries including banking and finance, information technology and logistics. Our Group is principally engaged in the following businesses:

#### **(1) Provision of IT application and solution development services**

We have begun offering IT application and solution development services since 1995. The provision of IT application and solution development services generally includes IT systems integration, software development, technology consultancy, third party hardware and software procurement and after sales service. We provide our IT application and solution development services on a project basis.

#### **(2) Provision of secondment services**

We have been offering secondment services in Hong Kong since 1995 where we designate our staff to work for our customers for a fixed period of time pursuant to the relevant secondment service agreements. Our seconded staff are responsible for carrying out a wide range of IT-related services for our customers, such as system administration, unit testing, preparation of technical specifications, system design, development and support.

#### **(3) Provision of maintenance and support services**

Following the completion of the provision of IT application and solution development, we may be engaged by our customers to provide maintenance and support services in separate agreements. We may also be engaged by customers whose IT systems were built and developed by other parties but seek us for maintenance and support services.

#### **(4) Provision of IT infrastructure solutions**

We assess, design and implement IT infrastructure solutions for our customers. Our Group provides IT infrastructure solutions to customers by integrating various hardware and software sourced from third party suppliers, including servers, storage systems, security systems, software, networking equipment and so forth to fulfil customers' requirements in relation to their IT infrastructure.

During the year ended 31 March 2013, we decided to discontinue our IT infrastructure solutions business in the PRC market and disposed of ICO Technology (China) on 1 April 2013 so that we can concentrate on our IT infrastructure solutions business in Hong Kong. For details of the Disposal, please refer to the section headed "History, reorganisation and Group structure" of this [REDACTED].

As a result of the Disposal, our Directors consider that our Group's business will no longer be burdened by the non-profitable business of the Disposal Group and will face less uncertainty in the PRC market in relation to IT infrastructure solutions business. Our Directors expect that the profit margin of our Group will increase and the risk profile of our Group will be reduce.

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The table below illustrates the breakdown of our revenue by business segments during the Track Record Period and periods mentioned below:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
IT application and solution development	33,762	15.3	25,995	13.3	21,679	11.4	12,221	12.9	6,674	7.5
Secondment services	45,409	20.6	42,812	21.8	40,660	21.4	19,757	20.9	21,880	24.7
Maintenance and support services	16,954	7.7	18,825	9.6	19,614	10.3	8,928	9.4	9,933	11.2
IT infrastructure solutions	<u>124,562</u>	<u>56.4</u>	<u>108,520</u>	<u>55.3</u>	<u>108,031</u>	<u>56.9</u>	<u>53,748</u>	<u>56.8</u>	<u>50,228</u>	<u>56.6</u>
	<u>220,687</u>	<u>100.0</u>	<u>196,152</u>	<u>100.0</u>	<u>189,984</u>	<u>100.0</u>	<u>94,654</u>	<u>100.0</u>	<u>88,715</u>	<u>100.0</u>

Please refer to the paragraph headed "Description of our business" in this section for further information relating to our business.

The table below illustrates the breakdown of our revenue by Hong Kong and the PRC during the Track Record Period and periods mentioned below:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Hong Kong	211,386	95.8	191,589	97.7	189,984	100.0	94,654	100.0	88,715	100.0
PRC	<u>9,301</u>	<u>4.2</u>	<u>4,563</u>	<u>2.3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>220,687</u>	<u>100.0</u>	<u>196,152</u>	<u>100.0</u>	<u>189,984</u>	<u>100.0</u>	<u>94,654</u>	<u>100.0</u>	<u>88,715</u>	<u>100.0</u>

### REVENUE MODEL

The revenue model of each of our Group's business segments is summarised in the table below:

Business segment	Revenue model
IT application and solution development	We generally charge our customers on a fixed price basis; our fees may be payable in several milestones in accordance with the contract. The pricing of IT application and solution development depends on factors such as complexity of the project, technology and equipment required, expected number of required man-days, the expected gross margin and level of competition during the bidding process. Payments will usually be made by our customers after signing off the relevant payment milestone deliverable.

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### Business segment

### Revenue model

During the Track Record Period, the duration of our IT application and solution development projects varied from around 1 week to 5 years. Project duration may occasionally be lengthened due to change requests initiated by our customers.

### Secondment services

We generally charge our customers on a monthly basis with the rate specified in the secondment service agreements and such rate remains unchanged during the contract period unless otherwise mutually agreed. The pricing of secondment services depends on factors such as experience and qualification of the seconded staff, the salary of seconded staff and the prevailing market rate. We may specify service fee caps for the fees chargeable by us in the secondment service agreements. During the Track Record Period, our secondment service agreements ranged from approximately 4 months to 18 months.

### Maintenance and support services

We generally charge our customers on a fixed price basis for an agreed service period. We take into account various factors when pricing our maintenance and support services, including scope of work, required service level, complexity of the customers' IT systems and cost of our suppliers.

During the Track Record Period, our maintenance and support services agreements were usually for a fixed term ranging from approximately 1 year to 10 years.

### IT infrastructure solutions

We generally charge our customers on a fixed price basis based on our customers' requirements, scope of work and cost of hardware, software and subcontracting.

During the Track Record Period, the duration of our IT infrastructure solutions projects ranged from approximately 1 week to 5 years. The duration varies and largely depends on the scale of the IT infrastructure and the scope of work assigned to us.

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### OUR COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths of our Group have contributed to our success to date:

#### **Comprehensive IT solutions and services to cater for customers' needs**

We have been in the IT solutions and services industry for over 20 years and are one of the top five IT solution and service providers in Hong Kong. We offer comprehensive IT solutions and services to our customers. Our IT solutions and services include IT integration solutions and IT infrastructure solutions with an aim to provide one-stop IT services to cater for customers' needs.

We offer an array of integrated IT solutions and services to our customers from designing and implementing IT systems, developing software to on-going maintenance and support. We are also able to offer IT related project management and provision of IT training to our customers. To offer our customers flexibility and efficiency, we also offer secondment services to our customers where selected staff can be deployed to our customers' office to serve them exclusively. We have a good understanding of our customers' businesses, products and industries. We generally draw from our pool of staff with different skill-sets to ensure our seconded staff are equipped with the specific skill-sets and technical support in order to meet our customers' needs. Our IT infrastructure solutions consist of a wide mix of hardware and software products to meet the diverse needs of our customers. We are different from general hardware and software vendors who only have a broad-brush understanding of various IT products. We believe that the comprehensiveness of the IT product portfolio in our IT infrastructure solutions provides our customers with convenience, flexibility and efficiency, thereby allowing us to build long term business relationships with our customers.

#### **Well-established relationships with international IT product vendors**

Our Group has built up long term relationships with international IT product vendors. As at Latest Practicable Date, our business relationships with the top five suppliers ranged from approximately five to eight years. These IT product vendors also provide us with necessary technical support to market their products into our IT solutions and services.

With recognised achievements in marketing our suppliers' products, our Group received various awards and recognitions from different IT product vendors as described in the paragraph headed "Awards and recognitions" in this section.

#### **Reputable and established customer base as well as solid relationships with business partners**

We have a solid customer base consisting of renowned businesses spanning across many sectors in Hong Kong. Our main customers belong to the banking, logistics and public sectors. During the Track Record Period, we served over 100 customers each year. As at the Latest Practicable Date, our business relationships with the top five customers ranged from approximately two years to seventeen years. We have also developed and maintained relationships with business partners for whom we act as subcontractor to collaborate in delivering IT application and solution

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development to our end customers. We have developed and maintained a good reputation among our customers and service providers for high quality services and ability to deliver large scale and complex IT solutions in a timely manner.

### **Experienced management and professional team**

Our dedicated management team develops effective strategies for maintaining the growth of our Group's business. The team is assisted by members of the senior management and the professional team who are well versed in IT knowledge. As at the Latest Practicable Date, approximately 52.3% of our staff (including the senior management) have over 8 years of experience in the IT industry. Our management team is led by Mr. Lee and Mr. Yong, executive Directors, who both have around 20 years of experience in the IT industry and business management.

Given our Group's extensive experience in the IT industry and a proven track record in delivering IT solutions and services to customers across different industries, we have been able to attract the necessary talent to remain competitive in the changing market and continue our success and business growth. As at the Latest Practicable Date, about 77.3% of our project managers hold tertiary education qualifications. Our project managers and the technical team that they lead possesses in-depth knowledge in IT as well as a thorough understanding in IT trends and requirements of different industries. Our proactive sales and marketing team communicates closely with customers to find out their changing needs. In addition, our team is required to follow our QMS, which streamlines our work and safeguards the quality of our work.

## **OUR BUSINESS STRATEGIES**

Our business objective is to maintain our position as one of the leading IT solution and service providers that specialise in assisting corporate and institutional customers to extract maximum value from their IT engagements. By adopting the business strategies set out below, we plan to continue to expand our market share and strengthen the market position of our business in Hong Kong.

### **1. Expanding our professional team and enhancing our service quality**

We believe that our success depends upon our ability to hire and cultivate experienced, motivated and well-trained members of our professional team. As such, we intend to continue investing in our professional team. In order to equip our team with the latest technological development, we offer internal and external continuous professional training programmes for our staff to learn and follow the technological changes and industry standard. We also provide training for the professional team to enhance its service recognition. In order to meet the increasing demand of the market, new headcounts will be provided to our professional team as we aim to enhance the efficiency and quality of our daily operations. We intend to utilise up to approximately HK\$[REDACTED] and HK\$[REDACTED] from the net proceeds to provide training to our team and expand our team respectively.

In addition, we are committed to provide quality services that consistently meet or exceed the expectations of our clients. As such, our Group aims to strengthen our quality control measures to ensure that our customers are satisfied with our services. Our Group will devote more resources to the development of our QMS (such as adopting ISO and other industry standards) and our internal control

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system to ensure our services and products are up to standard before they are delivered to our customers. In addition, our Group intends to provide new headcounts for the development and expansion of our internal control system.

We intend to utilise up to approximately HK\$[REDACTED] from the net proceeds to develop and enhance our QMS and internal control system.

From the Latest Practicable Date to the year ending 31 March 2017, the expected number of staff to be hired for expanding the professional team will be around 41 staff, of which 30 staff for secondment team, one staff for further development of our QMS, nine staff for IT application and solution development project team and one staff for maintenance and support team. The actual recruitment is subject to various factors including the availability of suitable personnel in the market and the progress of our business expansion.

Please refer to the paragraph headed "Implementation plans" in the section headed "Future plans and use of proceeds" in this [REDACTED] for a detailed description of the recruitment in the respective periods.

### **2. Expansion of IT application and solution development business**

We intend to maintain and strengthen our competitive position by expanding our portfolio of services so as to keep pace with the evolving market. We believe that expanding our established services will bring us more business opportunities and development potential. As such, we shall continue to explore business opportunities in IT application and solution development for multinational clients in various industries. We also aim to offer a wide range of services for multinational clients in various industries, which includes services in relation to long-term and large-scale projects, production of software applications and products.

We are occasionally required to place a security sum with the customer to ensure our due performance during the term of contract and the security sum will not be released to us until the completion of the project. As the duration of projects may last for years, it is important for us to maintain liquidity throughout. We intend to inject approximately HK\$[REDACTED] from the net proceeds to a pool of security sum for financing our engagement in IT application and solution development projects. This would allow us to grasp the opportunities to engage in more large-scale IT application and solution development projects concurrently.

With the increase of customers spending on IT services in Hong Kong, particularly in the business sector, there will be more chances for our Group to be approached by potential clients and for our Group to start new business projects accordingly. We intend to expand our structure in order to build sufficient capacity for seizing these new opportunities.

### **3. Growing our business strategically through merger, acquisition or business collaboration**

Our Group believes that in an increasingly competitive business environment, establishing strategic alliances and joint ventures with business partners or investing in new opportunities will be critical in enabling our Group to achieve economies of scale, enlarge our customer base, facilitate improvements in our technology and processes and broaden and diversify our product and service offerings to the market.

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Our Group aims to increase our competitive edge by upholding industry standards in both technology and talent management. Our Group will continue its quest for excellence and build our Group through strategic mergers and acquisitions in Hong Kong and/or the PRC. We intend to acquire or merge with IT companies (i) with readily available distribution or reseller licences of IT-related hardware and software products; (ii) specialised in IT technology and software development; and/or (iii) offering secondment services in IT industry.

Through mergers, acquisitions or collaborations, our Group could create new alliances in the region. We intend to utilise about 21% of the net proceeds from the [REDACTED] (i.e. approximately HK\$[REDACTED]) for this. As at the Latest Practicable Date, our Company had not identified any acquisition and merger targets and will only commence identifying potential targets after [REDACTED]. Selection of our acquisition targets and determination of the consideration will be based on (i) the acquisition price and the related costs; (ii) the financial performance of the potential target; (iii) the potential target's relevant experience within the IT sector; (iv) the expertise and qualifications of the staff of the potential target; (v) the available distribution or reseller licenses of IT-related hardware and software products possessed by the potential target; (vi) the potential target's existing customer base; and (vii) the reputation of the potential target. Part of the said proceeds will be used for the payment of professional fees and deposit in relation to the acquisition, if necessary.

The acquisition, if materialised, may constitute a notifiable transaction of the Company under the GEM Listing Rules. The Company will make further announcement(s) as and when appropriate and comply with all other applicable requirements under the GEM Listing Rules. Any shortfall is intended to be financed by internal resources of our Group.

#### **4. Purchasing new office premises as well as equipping and renovating our existing office premises**

In view of our expansion plan, we intend to (i) purchase an office premises for our own use; and (ii) equip and renovate the existing offices. Our Directors considered that the existing office area of our Group will not be sufficient to accommodate our needs. We intend to purchase an office premises with a gross floor area of approximately 1,500 sq. ft. for accounting, sales and marketing and administration/human resources functions of our Group. We shall consider the location, with the preference of certain districts in Hong Kong Island. We shall also renovate our existing offices to cater for additional manpower for business growth. With the soaring rental prices generally in Hong Kong, we believe that by having our own office premises, we can minimise our exposure to fluctuating rental expenses. As at the Latest Practicable Date, our Company had no concrete plan for the purchase of new premises and had not identified any office premises for purchase and will only commence identifying potential premises after [REDACTED].

We intend to utilise up to approximately HK\$[REDACTED] from the net proceeds of the [REDACTED] for the purchase of an office premises, renovation and equipping facilities. Any shortfall is intended to be financed by internal resources of our Group.

#### **5. Starting a research and development team**

Apart from enhancing our existing services, we believe that it is essential for our Group to continuously improve our technological techniques and formulate new product and service ideas to keep our Group in one of the leading positions of the industry. We currently do not have a research and

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development team and we now intend to set up a new research and development team to improve our products and services. The establishment of the new research and development team will provide us with innovative ideas to start new business projects and enhance the quality of our established services. In particular, the team will focus on exploring and developing new services, including, but not limited to hosting services, and developing clouds products, mobile applications, transportation and logistics systems. We shall require of new equipment to carry out the research and development. The new research and development team will be formed by selecting three to five existing senior staff of our Group, who possess over ten years of experience in the IT industry and business management. They are expected to have experience in sales and marketing, tender bidding, new product launching and budgeting, and knowledge in mobile applications, Clouds products, transportation and logistics systems.

We intend to utilise up to approximately HK\$[REDACTED] from the net proceeds to carry out research and development.

### **6. Strengthening our marketing efforts**

Our Group plans to devote more resources to strengthening our marketing capabilities. It is our plan to engage an independent public relations firm to explore marketing strategies available to our Group and enhance our brand image in the targeted industries according to our business expansion plan. We intend to promote our Group by building the brand of "ICO". Besides developing the brand name, it is our plan to generate goodwill of our Group through a diversified approach. We aim to build connections with potential clients and professional parties by organising seminars and client relationship events and increasing the scale and the variety of these events. We shall increase our Group's exposure by participating in industry exhibitions and advertising in industry magazine(s) and public electronic media.

We intend to utilise up to approximately HK\$[REDACTED] from the net proceeds to strengthen our marketing efforts.

## **DESCRIPTION OF OUR BUSINESS**

### **Provision of IT application and solution development services**

We have been engaging in the provision of IT application and solution development services in Hong Kong since 1995. Our IT application and solution development services are generally provided on a project basis.

We may be engaged in IT application and solution development projects as either the main contractor or subcontractor. As a main contractor, we are the prime of the project and we bear the ultimate liability of carrying out such project in accordance with the contract. We may outsource part of the works of the project. As a subcontractor, we are assigned part of the main contractors' obligations under the main contract for the project.

Our IT application and solution development generally involves IT systems integration, software development, third party hardware and software procurement and after sales services. Throughout the provision of IT application and solution development, our Group may also be engaged in project management, preparation of documentation and provision of IT training to our customers.



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IT systems integration generally involves the process of linking together different computing systems, existing or new, and software applications physically and functionally. Our Group acts as a system integrator to provide our IT expertise to integrate our customers' systems through networking, software development, systems administration, database management, etc.

Our customers seek us for software development normally because there is no off-the-shelf software in the market that can cater for their specific needs. We are usually given specific requirements and we have to develop software products in accordance with such requirements for our customers. We generally have to carry out software design, programming, database design, testing and deployment during the process of software development.

Riding on our past experience and industry knowledge, our Directors consider that we are particularly competent in delivering electronic signature systems, digital library systems and workflow management systems to our customers.

### *Electronic signature system ("ESS")*

The ESS is an imaging system designed for handling signature information and is designed for use in a typical bank environment. Signatures of bank's customers are captured, with appropriate indexing information, and are stored into a central signature database. Signatures are then distributed for viewing from user workstations. We have implemented the electronic signature system in a number of major banks in Hong Kong.

### *Digital library system*

Digital library system is a system used to manage multimedia assets of customers. The end user can perform searches through a web browser to retrieve multimedia resources of customers. There will be separate interfaces for our customers to manage their multimedia assets.

We have implemented the digital library system in an education institution and a public library in Hong Kong.

### *Workflow management system*

The workflow management system provides a platform for customers to control and manage several business processes through IT systems. It aims to automate the distribution of work tasks in relation to business areas selected by our customers.

We have implemented the workflow management system in a Hong Kong government body.

As at the Latest Practicable Date, we suspended our provision of IT application and solution development in the PRC.

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### Revenue generated from the provision of IT application and solution development services by industry sector

Main contractors who subcontract IT application and solution development work to us are considered to be our customers. The end-users of our IT application and solution development services include government and statutory bodies in Hong Kong (including education institutions), financial institutions (including banks and insurance companies) and other general business enterprises (including both local and multi-national customers).

The following table sets out our Group's revenue generated from our provision of IT application and solution development services by industry sectors during the Track Record Period:

	Year ended 31 March						Six months ended	
	2012		2013		2014		30 September 2014	
	Revenue HK\$'000	No. of projects	Revenue HK\$'000	No. of projects	Revenue HK\$'000	No. of projects	Revenue HK\$'000	No. of projects
<b>Industry sectors</b>								
Government and statutory bodies	1,211	2	9,068	4	10,001	5	1,238	5
Financial institutions	4,078	2	1,671	2	286	1	665	2
General business enterprises	<u>28,473</u>	<u>9</u>	<u>15,256</u>	<u>13</u>	<u>11,392</u>	<u>15</u>	<u>4,771</u>	<u>17</u>
<b>Total</b>	<u><u>33,762</u></u>	<u><u>13</u></u>	<u><u>25,995</u></u>	<u><u>19</u></u>	<u><u>21,679</u></u>	<u><u>21</u></u>	<u><u>6,674</u></u>	<u><u>24</u></u>

### Revenue generated, number and profit margin of projects in which our Company acted as main contractor or subcontractor

The below table sets forth the revenue generated, number and profit margin of projects in which our Company acted as main contractor or subcontractor respectively during the Track Record Period:

	Year ended 31 March						Six months ended					
	2012			2013			2014			30 September 2014		
	Revenue HK\$'000	Number of projects	Gross margin %	Revenue HK\$'000	Number of projects	Gross margin %	Revenue HK\$'000	Number of projects	Gross margin %	Revenue HK\$'000	Number of projects	Gross margin %
<b>Main contractor</b>	19,100	9	5.0	17,340	12	34.5	12,829	14	46.3	2,895	18	10.3
<b>Subcontractor</b>	<u>14,662</u>	<u>4</u>	<u>39.7</u>	<u>8,655</u>	<u>7</u>	<u>44.2</u>	<u>8,850</u>	<u>7</u>	<u>49.6</u>	<u>3,779</u>	<u>6</u>	<u>50.0</u>
	<u><u>33,762</u></u>	<u><u>13</u></u>		<u><u>25,995</u></u>	<u><u>19</u></u>		<u><u>21,679</u></u>	<u><u>21</u></u>		<u><u>6,674</u></u>	<u><u>24</u></u>	

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The tables below set out, in terms of recognised revenue, details of our Group's top five projects of IT application and solution development completed during the Track Record Period, for which the revenue recognised in aggregate accounted for approximately 30.0%, 40.1%, 57.9% and 19.6% of the total revenue recognised in IT application and solution development for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

### **Top five IT application and solution development projects in terms of recognised revenue completed during the year ended 31 March 2012**

End customer's business nature	End customer's headquarters	Our role	Type of work	Total contract value <i>HK\$'000</i> <i>(Note 1)</i>	Contract date	Project completion date <i>(Note 2)</i>	Revenue recognised in the year ended 31 March 2012 <i>HK\$'000</i>
General business enterprise	Hong Kong	Main contractor	Application development	3,093	May 2011	March 2012	3,093
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing licensing portal & workflow system	11,740	November 2008	January 2012	2,993
Financial institution	Hong Kong	Main contractor	Development of account opening platform	4,300	November 2010	September 2011	2,812
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing system	1,191	July 2011	March 2012	1,191
General business enterprise	Hong Kong	Main contractor	Enhancement of existing system	471	February 2011	April 2011	46

*Notes:*

1. The total contract value as agreed in the agreement.
2. Project completion date means the date of delivery, i.e. generally, upon notification of completion to the customer and/or the date of the letter of acceptance.

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**Top five IT application and solution development projects in terms of recognised revenue completed during the year ended 31 March 2013**

End customer's business nature	End customer's headquarters	Our role	Type of work	Total contract value <i>HK\$'000</i> <i>(Note 1)</i>	Contract date	Project completion date <i>(Note 2)</i>	Revenue recognised in the year ended 31 March 2013 <i>HK\$'000</i>
General business enterprise	Germany	Main contractor	Development of financial and accounting system	36,852	February 2008	March 2013	5,248
Government and statutory body	Hong Kong	Main contractor	Development of communication module for electronic record system	3,775	October 2011	December 2012	3,025
Financial institution	Hong Kong	Main contractor	Enhancement of existing ESS and cheque processing system	1,228	April 2012	January 2013	1,228
Government and statutory body	Hong Kong	Main contractor	Enhancement of existing workflow management system	1,428	May 2011	December 2012	470
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing registration system	718	January 2012	September 2012	461

*Notes:*

1. The total contract value as agreed in the agreement.
2. Project completion date means the date of delivery, i.e. generally, upon notification of completion to the customer and/or the date of the letter of acceptance.

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**Top five IT application and solution development projects in terms of recognised revenue completed during the year ended 31 March 2014**

End customer's business nature	End customer's headquarters	Our role	Type of work	Total contract value <i>HK\$'000</i> <i>(Note 1)</i>	Contract date	Project completion date <i>(Note 2)</i>	Revenue recognised in the year ended 31 March 2014 <i>HK\$'000</i>
Government and statutory body	Hong Kong	Main contractor	Enhancement of existing workflow system	13,530	November 2012	February 2014	8,226
Financial institution	Hong Kong	Subcontractor	Development of trading system	1,800	December 2013	March 2014	1,800
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing computerised system	2,641	October 2012	December 2013	1,272
General business enterprise	Hong Kong	Main contractor	Development of smart card authentication solution	650	July 2013	November 2013	650
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing online checking system	720	March 2013	November 2013	612

*Notes:*

1. The total contract value as agreed in the agreement.
2. Project completion date means the date of delivery, i.e. generally, upon notification of completion to the customer and/or the date of the letter of acceptance.

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**Top five IT application and solution development project completed during the six months ended 30 September 2014**

End customer's business nature	End customer's headquarters	Our role	Type of work	Total contract value <i>HK\$'000</i> <i>(Note 1)</i>	Contract date	Project completion date <i>(Note 2)</i>	Revenue recognised in the six months ended 30 September 2014 <i>HK\$'000</i>
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing system	480	May 2014	August 2014	480
General business enterprise	Hong Kong	Main contractor	Integrated shopping mall system	382	May 2014	September 2014	382
General business enterprise	Hong Kong	Main contractor	Implementation services for message delivery gateway	279	March 2014	May 2014	186
General business enterprise	PRC	Main contractor	Mobile-operation application system	150	May 2014	September 2014	150
Government and statutory body	Hong Kong	Subcontractor	Implementation services	108	December 2013	August 2014	108

*Notes:*

1. The total contract value as agreed in the agreement.
2. Project completion date means the date of delivery, i.e. generally, upon notification of completion to the customer and/or the date of the letter of acceptance.

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### Top five IT application and solution development projects in terms of contract value not yet completed as at 30 September 2014

End customer's business nature	End customer's headquarters	Our role	Type of work	Total contract value <i>HK\$,000</i> <i>(Note 1)</i>	Contract date	Expected completion date <i>(Note 2)</i>	Status as at the Latest Practicable Date	Financial year	Revenue
								in which all revenue is expected to be wholly recognised	not yet recognised as at 30 September 2014 <i>HK\$,000</i>
Government and statutory body	Hong Kong	Subcontractor	Enhancement of existing exit/entry system	21,125	March 2011	October 2014	Completed <i>(Note 3)</i>	2015	Nil
Government and statutory body	Hong Kong	Subcontractor	Data centre set-up and migration	9,700	December 2013	July 2015	Not yet completed <i>(Note 4)</i>	2016	4,183
Government and statutory body	Hong Kong	Main contractor	Migration system for new system platform	7,500	August 2014	September 2015	Not yet completed <i>(Note 5)</i>	2016	6,400
Government and statutory body	Hong Kong	Main contractor	Workflow management system	1,380	August 2014	December 2015	Not yet completed <i>(Note 6)</i>	2016	1,071
Government and statutory body	Hong Kong	Main contractor	Data conversion for multimedia information system	1,099	October 2012	October 2014	Completed <i>(Note 7)</i>	2015	137

*Notes:*

1. The total contract sum as agreed in the agreement.
2. Expected completion date means the date on which the project is expected to be delivered to the customer.
3. The project was completed in October 2014.
4. The project's work in progress was in accordance with the expected timetable and the system development stage has been commenced.
5. The project's work in progress was in accordance with the scope of work.
6. The project's work in progress was in accordance with the scope of work.
7. The project was completed in October 2014.

## BUSINESS

### **IT application and solution development projects for which contracts had been signed but had not been completed as at 30 September 2014**

The table below sets out the total unrecognised revenue of our IT application and solution development projects on hand but not yet completed as at 30 September 2014, the amount of revenue expected to be recognised for the year ending 2015, and the advances received from the customers in respect of these IT application and solution development projects as at 30 September 2014:

<b>Total unrecognised revenue as at 30 September 2014</b> <i>HK\$'000</i>	<b>Revenue expected to be recognised for the year ending 31 March 2015</b> <i>HK\$'000</i>	<b>Advances from customers as at 30 September 2014</b> <i>HK\$'000</i>
12,292	7,660	669

### **IT application and solution development project on hand but not yet completed as at the Latest Practicable Date**

As at the Latest Practicable Date, we had a total of 12 IT application and solution development projects on hand (including projects that have commenced but not yet completed as well as projects that have been awarded to us but not yet commenced). Our Directors confirm that our Group has entered into legally binding contracts with our customers for projects on hand as at the Latest Practicable Date.

### **Large-scale IT application and solution development project for a government department in Hong Kong**

Our Group partnered with the PRC Partner and were awarded Project A by a government department in Hong Kong in November 2014. Our Directors believe that our previous experience in an entry/exit control system of the same government department has given us an edge in winning the tender. The PRC Partner is the main contractor for Project A and our Group is its sole subcontractor under Project A. The Main Contract became effective following the fulfilment of all the conditions specified in the notification of conditional acceptance. The Main Contract incorporates, among others, the relevant schedules of the tender document, including the schedule which appointed our Group as the subcontractor. The duration for the provision of IT application and solution development services is about 40 months (including a warranty period of 12 months) and the provision of maintenance services is expected to be for a period of nine years beginning from the expiration of the warranty period.

#### *Information on the PRC Partner*

The PRC Partner is a state-owned joint stock company established in the PRC which headquartered in Beijing and the shares of which are listed on the A-share market of the Shanghai Stock Exchange. As at the Latest Practicable Date, the market capitalisation of the PRC Partner is approximately RMB36.9 billion. It mainly engages in the development of IT application and solution, IT systems integration and sales of self-developed software. It possesses extensive experience in managing large-scale projects and has participated in several national informatisation key projects. It has developed the electronic networks and management systems for various government departments in the PRC, such as a tax affairs



## BUSINESS

management system and anti-counterfeit tax system for the tax bureau, an individual identity authentication system for the public security bureau, a food and drug safety management system for the food and drug administration and a monitory system of entry/exit goods for the customs.

The PRC Partner is responsible for the overall supervision and coordination of Project A. It monitors the overall progress, use of resources and financial costs of the project and will act as the principal channel of communication among our Group, the government and other parties involved in the project. Meanwhile, our Group is responsible for the design, supply and implementation of IT systems and the maintenance and support services in accordance with the subcontracted scope of works.

The PRC Partner was introduced to us by one of our suppliers. Throughout the duration of Project A, the PRC Partner will likely become one of our major customers who will acquire the products and services of our Group for Project A under which our Group shall be the sole subcontractor in accordance with the tender submitted. Our Directors believe that the participation in Project A would add value to our Group's competitive edge which would assist our Group in acquiring new customers and diversifying our customer base. We will continue to look for new business opportunities with other potential customers so as to minimise the impact of our reliance on the PRC Partner under Project A.

### *Salient terms of the subcontractor contract*

We have entered into a subcontractor contract with the PRC Partner pursuant to which we shall be obliged to perform and discharge in full all the duties and obligations imposed upon the PRC Partner in the Main Contract and we shall have in full all the rights that the PRC Partner has in the Main Contract in relation to the performance and discharge of such duties and obligations, except as further provided in the subcontractor contract. The salient terms of the subcontractor contract between the PRC Partner and us in relation to Project A are as follows:

- Major scope of work:**
- To design, supply and implement IT systems
  - To provide training, support and maintenance services to end-customers
- Project timeframe:** Approximately 40 months from mid-November 2014 to mid-March 2018 in accordance with the existing resource planning for IT application and solution development services (including a warranty period of 12 months), followed by a nine-years maintenance and support services from mid-March 2018 to mid-March 2027
- Liabilities in the event of delay:**
- The government shall receive liquidated damages if there is a failure to provide all or any of the deliverables to the government by the applicable completion date.
  - The government is entitled to terminate the whole or part of the contract and may receive refund for the money paid in relation to the deliverables if there is any failure to provide all or any of the deliverables within the prescribed time frame after the applicable completion date.

## BUSINESS

**Indemnities and indemnification liabilities on the part of our Group to the PRC Partner:**

The PRC Partner shall indemnify and keep the government indemnified from and against:

- Any demands and liabilities arising from (i) a breach of any provision of the contract; (ii) any warranty which is incorrect, inaccurate, incomplete or misleading; (iii) any negligence, recklessness, or willful misconduct; or (iv) any act or omission in the discharge of the services.
- Any demands and liabilities suffered by the government as a result of or in connection with the infringement or alleged infringement of intellectual property rights of the supplied system and supplied IT products.

The PRC Partner may raise claim against our Group for losses suffered by the PRC Partner as a result of any liquidated damages levied on it or damages claimed against it by the government for indemnities.

**Deduction of charges and early termination:**

- If at any time during the contract period, a non-compliance event including but not limited to, non-compliance with the committed serviceability level, absence of the project team member and the team member not fulfilling the qualification or experience requirements in relation to the contract occurs, the government shall be entitled to obtain refund or make deduction from the charges from time to time payable for such non-compliance event in the applicable amount specified in the contract as and for liquidated damages and not as a penalty.
- If at any time during the contract period, any one or more of the non-compliance thresholds specified in the contract have been reached, the government shall be entitled to terminate the contract accordingly.

**Change of control:**

The PRC Partner may terminate the subcontractor contract if there is a change of control and the PRC Partner reasonably believes that such change of control may materially affect the performance by ICO HK of its obligation under the subcontractor contract. A change of control occurs if either (i) the majority of shares carrying a right to vote in ICO HK or its holding company are acquired by a person who was not a majority shareholder at the date of the subcontractor contract, or (ii) there is a change in the ownership of the legal power to direct, or determine the direction of, the general management and policies of ICO HK or its holding company.

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**Limitation of liability of the PRC Partner:**

The PRC Partner shall not be responsible to our Group for any failure to perform its obligations under the subcontractor contract where there is a corresponding failure by the government to perform its obligations under the Main Contract, provided that the PRC Partner takes all reasonable steps to pursue its rights under the Main Contract.

**Payment terms:**

- For the third party IT products procured by our Group for the use in Project A, the PRC Partner shall pay to us following the delivery of products. We will generally grant a credit period to the PRC Partner for a period of 30 days.
- For the provision of IT application and solution development services, the payment schedule is as follows:
  - (i) 5% of the subcontracting revenue upon completion of project initiation, system analysis and design, down-sized mainframe application analysis and design (i.e. around third quarter of 2015);
  - (ii) 10% of the subcontracting revenue upon completion of system development & testing, down-sized mainframe application development and testing (i.e. around first quarter of 2016);
  - (iii) 5% of the subcontracting revenue upon completion of user acceptance (i.e. around third quarter of 2016); and
  - (iv) 70% of the subcontracting revenue upon completion of user training, production rollout and the system is certified to be ready for use (i.e. around first quarter of 2017).

The government will withhold 10% of payments until the expiry of the warranty period.

- The maintenance and support service fees will be paid in quarterly subsequent to the 12-month warranty period.

*Circumstances under which our Group may cease to derive income from the subcontractor contract*

As disclosed above, if there is any failure or delay on our part to provide all or any of the deliverables to the government, the government is entitled to terminate the whole or part of the Main Contract and may demand for money paid in relation to the deliverables. In such circumstances, our

## BUSINESS

Group would also be in breach of the subcontractor contract and therefore would not be entitled to receive income therefrom and may have to bear the damages arising from such failure or delay on our part.

Our Group may be deprived of income under the subcontractor contract if the PRC Partner shall fail to give us the income, whether it is due to a breach on the part of the government under the Main Contract or a breach on the part of the PRC Partner under the subcontractor contract. In such circumstances, we shall have the remedy under the subcontractor contract by taking legal actions against the PRC Partner for recovery of the income.

### *Consequences of early termination of Project A*

In the event of early termination as a result of any default of our Group, we shall be liable for all losses, damage, liabilities, costs and expenses incurred or sustained by the government in relation to the subcontracted work arising from the termination. We may also be liable for losses suffered by the PRC Partner as a result of any liquidated damages levied on it or damages claimed against it by the government under the Main Contract.

In the event of early termination or expiry of the Main Contract, our Group shall refund to the government all sums previously paid under the contract in respect of all of the categories to which the contract relates and in respect of the unexpired period of the contract period following the termination plus interest, and in case the termination occurs prior to the system being ready for use, subject to the terms of the contract, our Group shall refund to the government all sums paid in or towards satisfaction of the total implementation price in respect of all of the categories to which the contract relates plus interest to accrue in accordance with the terms of the contract.

The government may also suspend or terminate the contract in its discretion. If this occurs prior to a system becoming ready for use, the government shall pay such portion of the total implementation price for that system as is fairly and equitably payable to us for such part of the implementation services in accordance with the terms of the contract.

There is a limit on the PRC Partner's liability in relation to the early termination of the Main Contract. In the event that the Main Contract is terminated or suspended caused by the decisions made by the government, the PRC partner shall not be liable to us for any losses, damages, costs and expenses incurred or suffered as a result thereof.

The change of control of ICO HK would only trigger the termination of the subcontractor contract if the PRC Partner reasonably believes that such change of control may materially affect the performance by ICO HK of its obligations thereunder. In other words, the change of control will not automatically trigger the termination of the subcontract.

Our Directors believe that our Group is capable of fulfilling the material obligations under the subcontractor contract and that the risk of the subcontractor contract being terminated is low. Upon [REDACTED], our Company will report the progress of Project A in its quarterly, interim and annual reports in order to keep our Shareholders and potential investors informed of the development and will issue announcements on any material changes which may trigger the termination provision under the subcontractor contract due to the change of control.

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### *Commitment on resources*

Our Group is experienced in delivering IT application and solution development projects of various scales and nature including projects for the government of HKSAR. During the tendering process, we were scrutinised by the government in respect of our technical and financial capabilities.

In the first half of 2014, we have submitted six tender proposals (including Project A) to both private and public sectors. It is the strategy of our Group to review the internal resources of our Group in every tender. We shall prudently review the status of existing projects, the existing human resources, the availability of external resources, the historical success rate of tender proposals, the tendering/clarification status of tenders, and the duration of each project (both existing projects and tender proposals), etc. Based on the review, we shall allocate our technical staff among the business segments, and shall recruit additional staff if there is any foreseeable shortage according to the estimated timetable and technical requirement of our projects. Due to the foreseeable demand for additional manpower, we have already increased the scale of recruitment in the second quarter of 2014. We have recruited an additional 34 full-time staff from 1 April 2014 to 30 November 2014, and will continue to recruit additional staff, mainly with technical knowledge, according to the estimated human resources plan. As at the Latest Practicable Date, we have not experienced any material difficulty in the recruitment of qualified staff for Project A. We expect that the surplus staff, if any, arising from the completion of Project A will be absorbed through (i) natural wastage; (ii) internal redeployment of staff to other IT application and solution development projects or other business segments; and (iii) dismissal upon the expiry of the relevant employment agreements.

We have also reserved adequate human resources for the provision of maintenance and support services during the 12-month warranty period. For the third party IT products procured for the use in Project A, the warranty will be provided by the third party suppliers. Having considered the likelihood of any outflow of resources to fulfil the obligation is remote and the estimated costs such as time cost and labour cost required to fulfil the obligation are immaterial to our Group's results of operations and financial position, no provision on warranty has been made on Project A. During the Track Record Period, we did not receive any material complaints from our customers and no significant expenses were incurred to fulfil the warranty obligations. Apart from the committed human resources, our Group did not make or enter into any commitment on the financial resources under both the Main Contract and the subcontractor contract in relation to Project A.

Based on the projected human resources commitment and workload of Project A, our Directors consider that the current business of our Group will not be prejudiced and that our Group will have sufficient resources and capacities to deliver the services under Project A without having any material impact on our Group's overall business.

### *Consequences of potential delay on Project A*

Pursuant to the agreed timeframe under the Main Contract of Project A, our Group has already commenced work for Project A and will adhere to the schedule and timeline of Project A.

Since Project A has formally been awarded and the Main Contract has become effective, our Directors consider the likelihood of Project A not proceeding to be highly remote. The terms and timeframe for Project A have been agreed and formally documented and the work thereon has commenced. On the other hand, our Group has been actively working with other customers in each

## BUSINESS

business segment. Throughout the Track Record Period and up to the Latest Practicable Date, our Group has been actively participated in bidding for IT application and solution development projects. From 1 April 2014 to the Latest Practicable Date, we have submitted 14 tender proposals to both private and public sectors. There were ten bidding proposals with contract value of HK\$1 million or above pending tendering results as at the Latest Practicable Date. According to our estimated human resources plan, we shall reserve certain headcounts for the preparation of bidding proposals in the future. Going forward, we intend to continue the bidding for other projects when suitable tenders arise.

If there is any early termination, suspension, delay or postponement of Project A, the prospect of Project A will not be materialised as planned. However, having considered that (i) apart from Project A, we had a total of 11 IT application and solution development projects on hand and the total contract value of these projects is approximately HK\$28.7 million; (ii) we had ten bidding proposals with contract value of HK\$1 million or above pending tendering results as at the Latest Practicable Date; and (iii) going forward, we shall actively participate in bidding other projects and our Directors consider that our Group still have other projects or contracts on hand as alternative sources of revenue, therefore our Directors are of the view that the business performance of our Group will still be sustainable.

### *Engagement of the third party subcontractors under Project A*

We may outsource part of the work under Project A to other third party subcontractors if we consider it is more efficient and cost effective to do so. We may also consider engaging industry experts to provide advisory and consulting services if the development of the application requires specific industry knowledge. As at the Latest Practicable Date, we had not engaged any subcontractors for Project A and we had neither formulated any concrete plan for engaging subcontractor nor identified any suitable subcontractor. In the event we engage any subcontractors, the subcontractors will be closely monitored by our project managers and will be required to follow our QMS guidelines and relevant operational and/or internal control manual in all respects to ensure their works meeting the customer's requirements. Despite such outsourcing arrangement, we may still be vicariously liable for the acts or omissions of the third party subcontractors in the contract of their services. We are responsible for any loss or damage suffered by the government or the PRC Partner arising out of the defective works of our subcontractors.

### *Financial implication of Project A*

The total subcontracting revenue to be recognised by our Group under Project A is expected to be over HK\$900 million. Pursuant to the subcontractor contract between the PRC partner and our Group, the revenue derived from Project A will be allocated as follows:

- (i) approximately 42% of the subcontracting revenue will be attributed to the IT application and solution development segment; and
- (ii) approximately 58% of the subcontracting revenue will be attributed to the maintenance and support services segment.

Our Group has commenced work on Project A in November 2014. Our progress of work under Project A was in accordance with the completion schedule and timeline as at the Latest Practicable Date.

## BUSINESS

As revenue derived from IT application and solution development segment is recognised using the percentage of completion method, there are no specific milestones pursuant to which our Group shall meet in order to recognise the revenue from Project A. However, based on the implemental schedule of Project A and the available resources of our Group, we estimate that approximately 15%, 21% and 6% of the subcontracting revenue will be recognised by our Group for the year ending 31 March 2015, 2016 and 2017 respectively under Project A. As a result, the expected proportion of turnover derived from the IT application and solution development segment to our total turnover will increase, which will make this segment become the major revenue source of our Group for the three years ending 31 March 2015, 2016 and 2017. An unaudited revenue of approximately HK\$96.9 million was derived from Project A up to 31 December 2014 and was fully settled as at the Latest Practicable Date.

We expect to recognise the revenue generated from the provision of maintenance services under Project A, representing approximately 58% of the subcontracting revenue, during the years ending 31 March 2019 to 31 March 2027. Therefore, the proportion of revenue derived from the maintenance and support services segment to our total revenue will increase during such periods.

Based on the total estimated resources planning, the estimated gross profit margins of the entire Project A is about 20%, which is lower than the historical average gross profit margin of both the IT application and solution development segment and the maintenance and support segment during the Track Record Period. Project A has a lower profit margin because we adopted a competitive pricing strategy during the tendering process to achieve winning of the tender. Further, a large portion of IT application and solution development services under Project A contains the procurement of IT products provided by third parties which we are unable to charge a high premium. We also estimate that the gross profit margin of the maintenance and support segment will be higher than that of the IT application and solution development segment. Accordingly, we expect that the overall gross profit margin of the IT application and solution segment for the three years ending 31 March 2015, 2016 and 2017 will decrease as compared to that of the Track Record Period. Although our overall gross profit may increase, the gross profit margin of our Group will decrease during such periods. There will be an expected decrease in the gross profit margin of the maintenance and support services segment during the years ending 31 March 2019 to 2027 as compared to that of the Track Record Period.

### *Cashflow management of Project A*

During the implementation of Project A, we may have to procure IT products for the use in Project A directly. We are not required to pay any deposit to our suppliers. The purchase amount will only have to be paid upon product delivery and the suppliers will grant a credit period to us. The products will be delivered by the suppliers to the PRC Partner directly. The PRC Partner will then inspect the products and will pay to us the purchase sum under the purchase order within the credit period that we granted to the PRC Partner. In order to minimise the financial impact on our cash flow, we shall match the term of payment by granting a shorter credit period to the PRC Partner than the one granted to us by the suppliers. We shall pay to the suppliers once we receive the payment from the PRC Partner. Unless there is any default or lapse of payment by the PRC Partner, the cash flow position of our Group during the years ending 31 March 2015, 2016 and 2017 shall not be adversely affected.

Taking into account the cash inflow from the initial milestone payment received under Project A, the net operating cash inflow contributed from the supply of IT products of Project A, secondment services and maintenance and support services, the net proceeds from the [REDACTED] and the existing

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cash on hand of our Group, our Directors confirm that our Group will maintain sufficient cash to meet the cash outflow for direct labour cost in Project A and our Directors further confirm that our Group will have sufficient working capital from time to time.

According to the payment schedule of Project A, 70% of the subcontracting revenue will only be received by us at a later stage. However, we recognise the subcontracting revenue derived from the provision of IT application and solution development services over time based on the percentage of completion. As the labour cost, being a major cost other than the procurement cost, is not substantial, our Directors are of the view that our Group will not face material pressure on our cashflow during the implementation of Project A.

As our payment to suppliers will be secured by the receipt from the PRC Partner, our Directors believe that the key financial ratios of our Group will not be materially and adversely affected by Project A.

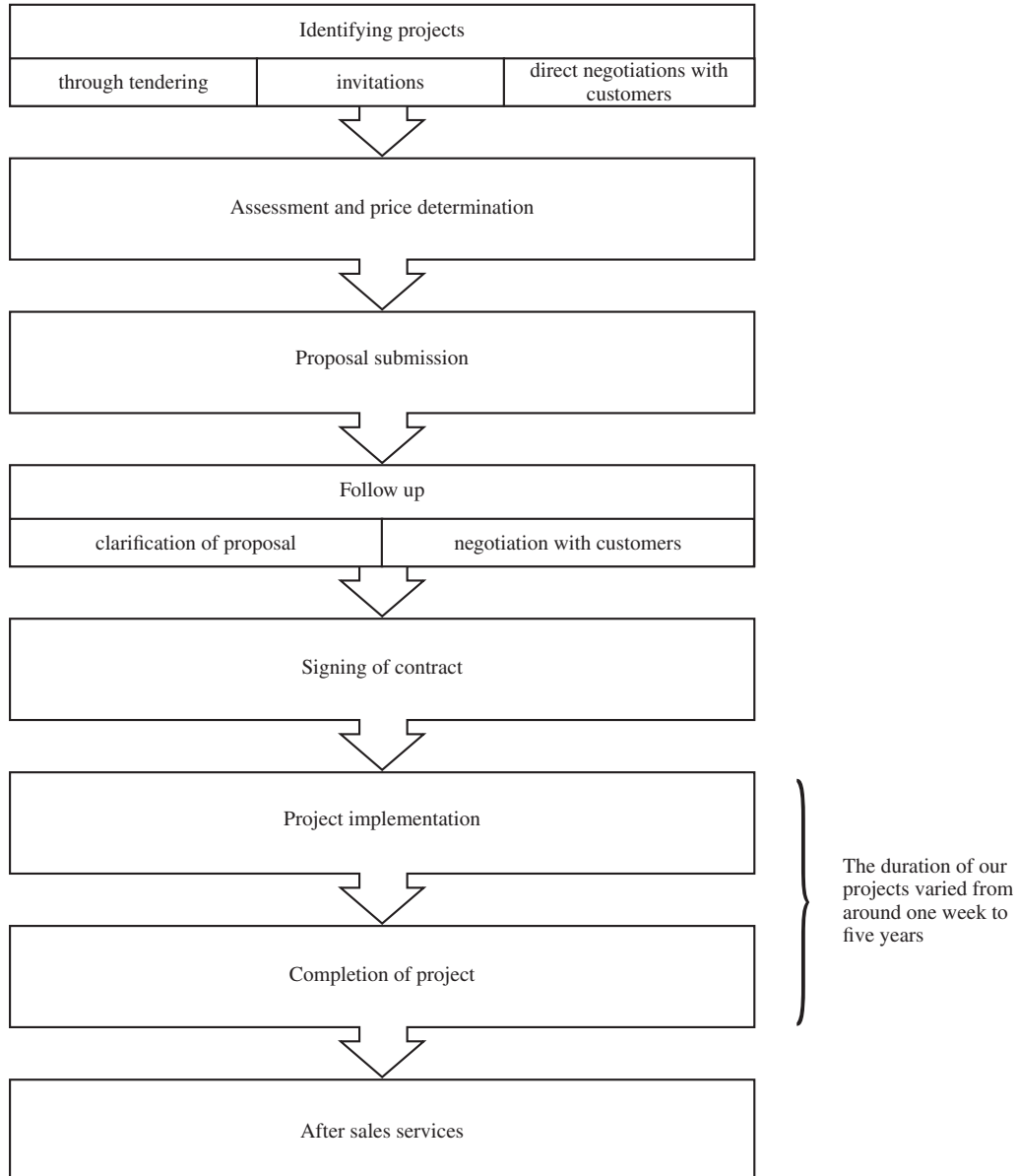
For further details regarding the financial implication of Project A, please refer to the paragraph headed "Financial implication of Project A" under the section headed "Financial information" in this [REDACTED].



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**IT application and solution development life cycle**

The following flow chart illustrates the major steps involved in an IT application and solution development project:



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### **Identifying projects**

For public sector projects, we generally identify tender invitations from different Hong Kong government departments from the Hong Kong government gazette, government websites or email notification of IT open tenders. The tender notices published by the Hong Kong government usually include a brief description and specification of the work required, contract period, contact details of the office where forms of tender and further particulars of the projects may be obtained and the closing time and date of the tender.

We also receive tender invitation letters or request for proposal letters from private sector customers. As our business is project-based, we do not have any annual tendering cycle, which is in line with the IT application and solution development industry.

Our Directors and staff from the sales and marketing team may carry out pitching and business discussion with potential customers from both private and public sectors to generate sales lead.

At times we are approached by the main contractors of certain projects through connections and previous working relationships and requested to provide an indication of our interest to act as their subcontractor. To facilitate the tender by main-contractors, we may enter into a teaming agreement with a team lead whereby we agree to negotiate in good faith a subcontracting agreement with the team lead if a contract is awarded to him.

### **Assessment, price determination and proposal submission**

After we have obtained the tender documents and project requirements from our customers, a project director is assigned. Our project director will appoint a bid manager and form a proposal team to make preliminary assessment. Our proposal team will commence preliminary work to assess whether our Group would bid for the projects. Our proposal team will carry out preliminary works such as solution feasibility assessment, lining up with subcontractor(s) or partner(s) (if necessary), obtaining quotation for third party software and hardware products and assessing internal resources to provide preliminary costs of the proposal for our executive Directors' consideration. Our executive Directors are responsible for making the decision on whether or not to bid for the projects. If we are to bid for the projects, the proposal team will prepare technical proposals and pricing proposals for submission.

Prerequisites for tendering vary and depend on the specific tender. Such prerequisites may include but not limited to minimum number of years of experience in management of IT application and solution development projects and experience in developing a similar IT system with a minimum number of users. We are usually required to submit along with the tender, a company profile and details of relevant experience. Occasionally, our Group is required to place a security sum. As at the Latest Practicable Date, there were no specific financial requirements on our submitted tenders.

We consider the rates that our Group is able to charge for providing solutions and services depend on factors such as the complexity of the projects, the technology and equipment required, the expected number of man-days required to complete the projects, the expected gross margin and the level of competition our Group faces during the bidding process.

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### Follow up

After the submission of our proposals, we may receive enquires from our potential customers regarding our proposals. The proposal team then have to follow up with the potential customers to make clarifications in response to their enquires.

### Bidding proposals during the Track Record Period

As of the Latest Practicable Date, there were ten bidding proposals for the IT application and solution development projects with contract values of HK\$1 million or above pending tendering results. Please refer to the paragraph headed "Recent development subsequent to the Track Record Period" under the section headed "Financial information" in this [REDACTED] for further details.

The following table illustrates our Group's success rate of bidding proposals for the IT application and solution development projects with contract values of HK\$1 million or above:

	For the year ended 31 March 2012	For the year ended 31 March 2013	For the year ended 31 March 2014	From 1 April 2014 up to the Latest Practicable Date
Number of bidding results received by our Group	10	9	6	10
Number of successful biddings	2	3	3	6
Awarded contract sum (approximately)	HK\$2.4 million	HK\$17.4 million	HK\$15.3 million	HK\$431 million (Note 1)
Success rate of bidding proposals (%) (Note 2)	20% (Note 3)	33% (Note 4)	50% (Note 5)	60% (Note 6)

*Notes:*

- (1) The contract value for maintenance and support services under Project A is excluded.
- (2) Success rate of bidding proposals is calculated by total number of bidding proposals awarded over total number of bidding results received by our Group during the period/year.
- (3) As at 31 March 2012, there was no bidding proposal pending tendering result.
- (4) As at 31 March 2013, there was no bidding proposal pending tendering result.
- (5) As at 31 March 2014, there were five bidding proposals pending tendering results, which are excluded from the calculation.
- (6) As at the Latest Practicable Date, there were ten bidding proposals with contract values of HK\$1 million or above pending tendering results, which are excluded from the calculation.

Our Directors consider that in respect of the unsuccessful cases, those tenders were not awarded to our Group mainly for pricing reasons. To the best knowledge of our Directors, the tender success rate in the industry is not readily available.

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### Signing of contract

A legally binding contract will be entered into between our customers and us when we are awarded with an IT application and solution development project. The contract typically contains the following salient terms:

- |                      |   |
|----------------------|---|
| <b>Security sum</b>  | At times, we may be required to place a security sum with our customers to ensure our due performance during the term of the contract. The security is generally released to us upon completion of the project.   |
| <b>Payment</b>       | Generally, our IT application and solution development is provided on a fixed price basis payable in several milestones in accordance with the payment schedule. The fixed price is inclusive of all agency fees, medical or insurance expenses, tax payments (including corporate, transaction and individual) for the services provided and there should be no extra payment for other expenses which may arise in relation to the project. Payments will only be made after the customer accepts and signs off each payment milestone deliverable.   |
| <b>Credit terms</b>  | We generally grant a credit period to our customers for a period of 30 days after the issuance of our invoice.  |
| <b>Service scope</b> | We normally set out our service scope in the contract which broadly includes the following: <ol style="list-style-type: none"><li>1. Project management services: plan and coordinate the development work and testing work of the application, attend progress review meeting with the customer, review change request and provide feedback and estimation, monitor the progress to ensure on time completion and conduct quality assurance testing on the products.</li><li>2. Requirement management services: collect and confirm the customer's requirements before the commencement of the technical designing work.</li><li>3. System analysis and design services: perform analysis on customer's requirements and design the solution and application.</li><li>4. System development and unit test services: design and develop programme codes, perform unit test, verify unit test results and rectify problems identified in the test.</li><li>5. System integration test services: conduct integration test to verify that the developed programmes conform to the customer's requirements in an integrated testing environment.</li></ol> |

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6. Support for system acceptance test services: assist the customer to conduct system acceptance test for the developed application, investigate problems reported by the customer, provide solution and resolve the application faults found during the test.

**Warranty period** In some cases, we warrant that the developed programmes will conform to its technical specifications during the warranty period, which normally ranges from approximately 3 months to 12 months. During such period, we shall maintain and support the software at no charge to the customer.

**Liability** Some of our contracts stipulate that we shall indemnify and hold the other party harmless from and against all claims, lawsuits or proceedings, losses, damages, liabilities and costs (including legal costs) which arise directly and indirectly, in connection with or out of, or which relate in any way to:

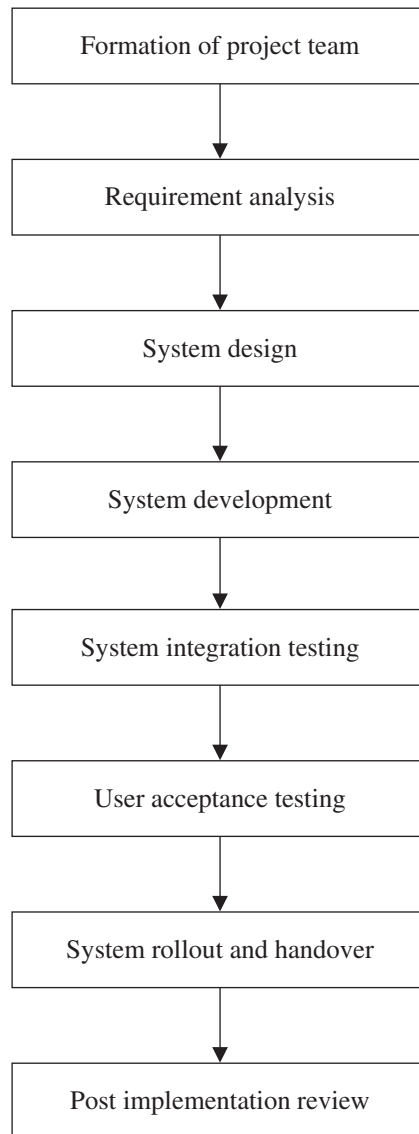
- (a) a breach of any provision of the contract;
- (b) the negligence, reckless or wilful misconduct of us, our consultants, employees, agents or subcontractors in the delivery of the project; or
- (c) any authorised act or omission of us, our consultants, employees, agents or subcontractors.

**Limitation of liability** During the Track Record Period, we limited our total liability arising out or in connection with some projects for up to two times of the total fees.

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### IT project implementation

The chart below illustrates a typical IT application and solution development implementation flow:



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The table below describes the details of each step in a typical IT application and solution development project:

- Formation of project team
- Depending on the size of the project and the complexity of the work undertaken, the number of staff allocated to the project team varies
  - Composition of a project team varies and may involve the following roles which are selected from our pool of staff:
    - Project director
      - make final decisions and supervise the overall conduct of the project
      - liaise with stakeholders
    - Project manager
      - manage the development and delivery of project
      - manage the project team
      - monitor overall progress, use of resources and initiate corrective action where necessary
      - liaise with project director, end users and project assurance personnel, subcontractors, and any other parties in relation to the project
    - Team manager
      - prepare work plans for the team and monitor team's work
      - advise project manager of any deviations from plan
      - identify and manage risks arising from the project
    - Quality controller
      - manage overall quality of the project
      - ensure compliance with internal standards
    - Release manager
      - manage configuration system of the project

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- Purchaser
  - manage procurement of software, hardware and other requested products and services
- Other team members
  - carry out the plans as directed by the project manager and team manager and inform supervisors of deviations from plans
  - evaluate and implement changes for technical exceptions
  - carry out quality control procedures
- Requirement analysis
  - User's existing system and infrastructure environment are understood
  - Requirements are gathered from end users including the business functions that they perform, the data entities required by the new system and sizing model of data storage
  - Prototyping may be used to assist analysis
- System design
  - Specifications are given based on the requirement analysis
  - A system analysis and design report is compiled, translating user requirements into technical requirements
  - System design specifications are signed off by the customer
- System development
  - Programme code is written/modified based on the design, specifications and development standards
  - If problems are discovered during the coding stage requiring changes to the design, specifications or development standards, the project manager initiates a change request
- System integration testing
  - Various units that make up the system are tested together, problems found are recorded and units are re-tested until the results are satisfactory
  - Integrated system is installed and tested according to the system integration test plan
  - Changes may be made to the code if necessary and re-testing of the system is performed until the test results are satisfactory
- User acceptance testing
  - The user acceptance test plan is finalised and signed off by the customer



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- System is installed at the end user's site
  - End users proceed with user acceptance test and the project team provides support if necessary
  - Any problems found during the user acceptance testing are recorded and fixed by the project team
  - After the user acceptance test is completed, the project manager obtains a sign-off from the end user
- System rollout and handover, and post implementation review
- Accepted system is formally released to end user's production environment
  - User training is provided to the end users and training is provided to the end users in respect of the operation of the system
  - User feedback is collected
  - Project team conducts a post implementation review
  - System is handed over to the maintenance team

### *Procurement of third party software and hardware*

Our IT application and solution development projects may involve the deployment of third party software and hardware. Depending on the requirements of our customers, we may have to procure third party hardware and software for our customers. These third party software and hardware normally include enterprise servers, database systems, or networking equipment from different suppliers.

We, as a system integrator, are responsible for ensuring that the sourced products conform to the system requirements of our customers and support the software developed by us. At times, our customers or end users may specify certain vendors to procure from or certain brands of products or specific products to be procured. We negotiate the prices and terms with all the vendors on an arm's length basis and on normal commercial terms.

For contracts undertaken by us as a subcontractor, if the subcontracts entered into between us and the main contractor so provides, the main contractor may be responsible for purchasing the third party software and hardware.

### **After sales service**

Warranty period commences once the solution is fully implemented and handed over to the customers. Warranty periods offered by us in respect of our IT application and solution development project usually ranged from approximately 3 months to 12 months. During the warranty period, we shall generally carry out problem diagnostics, bugs and technical errors fixes (other than those errors resulting from the wilful default or neglect on the part of our customers) without any additional costs on top of what our customers have paid for the implementation of the IT application and solution development.

## BUSINESS

The usual warranty offered by us also covers any changes, modifications or enhancements made to the solution during the warranty period. For certain contracts, if changes, modifications or enhancements are made to the solution within the final month of the warranty period, the warranty period may be extended for a further period at no additional cost to the customers.

Depending on the individual contract, if an error is unable to be remedied by our Group, the customers may be entitled to rescind the portion of the contract relating to the error and request our Group to refund for the relevant portion.

Subject to the agreement, we may have to conduct training courses for our customers in relation to the developed IT solutions.

### **Completion of project**

#### *Duration of IT application and solution development project*

The duration of our IT application and solution development projects is affected by a wide range of factors including scope of work, technical complexity, delivery lead time of third party software and hardware, expectation of customers, and varies widely.

During the Track Record Period, the duration of our IT application and solution development project varied from approximately 1 week to 5 years. Project duration may occasionally be lengthened due to change requests initiated by our customers.

#### *Payment for IT application and solution development*

The terms of each mandate, including the billing arrangement, are negotiated between the customers and our Group and are determined on a case-by-case basis with reference to the specific circumstances of each project.

Each of the IT application and solution development projects is provided on a fixed-price basis payable in several milestones in accordance with the payment schedule of the mandate. It is the current practice of our Group to bill the fees under the mandates in three to five payments for projects having a length of up to twelve months under normal circumstances with the first payment to be paid upon signing of the contract. The following payments will be paid according to the completion of critical milestones of the projects, for example, signing off system design, performing system integration testing or performing user acceptance testing. The final payment will be paid upon the system handover and post implementation review of the applications or solutions.

Payment for IT solutions varies according to the relevant agreements. For some projects, we receive payments in several milestones as determined in the relevant agreements; for some, we receive one-off payment from our customers upon the signing of the contract; for some, we require customers to pay a portion of the contract price upon the signing of the contract, ranging from 10% to 40%. From time to time, our customers may initiate change requests by which the scope of work of the original agreements is amended and the contract sum will normally be varied.

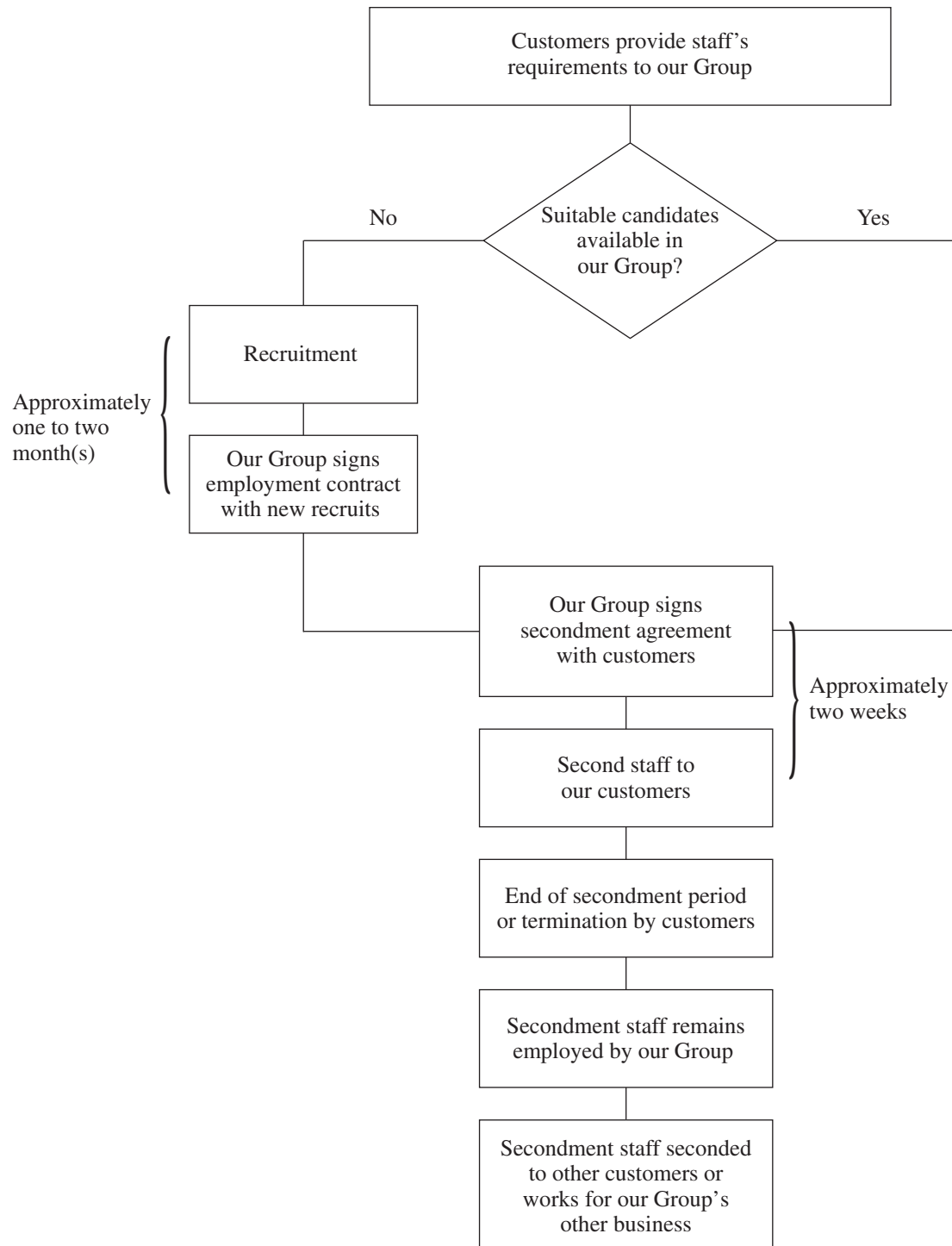
### **PROVISION OF SECONDMENT SERVICES**

Our Group has been offering secondment services in Hong Kong since 1995 where we designate staff from our pool of staff to work for our customers during the term of the secondment service agreements.

## BUSINESS

During the Track Record Period, we had seconded our staff to 10 customers covering different backgrounds including government and statutory bodies, financial institutions, and general business enterprises. We mainly provide architect, system analyst, and analyst programmer for IT system and software design, development, testing and implementation. As our seconded staff work on-site at our customers' premises, our customers are able to have readily access to the relevant manpower.

The below chart illustrates a typical workflow of our secondment service:



**BUSINESS**

When we receive potential secondment service requests from our customers, we shall first ascertain our customers' requirements against the experience, qualifications and skill-sets of our existing pool of staff. Suitable candidates are deployed from within our staff pool if possible, if none of the candidates match our customers' requests, we shall then recruit new staff from the outside.

Once the suitable candidates have been selected, our Group will enter into a secondment agreement with our customers. The secondment agreement with the relevant customers will usually contain among others, provisions regarding the working hours, scope of work and protection of our customers' confidential information and intellectual property rights. During the duration of the secondment service agreement, and after the secondment period, the seconded staff remain as employees of our Group. Once the secondment agreement is terminated, the relevant staff will either be seconded to other customers or be deployed to work on other business for our Group.

The following table sets out the breakdown of the number of our staff on secondment to our customers by industry sector as at the end of each of the periods during the Track Record Period and as at the Latest Practicable Date:

Industry sector	As at 31 March			As at	As at
	2012	2013	2014	30 September	the Latest
	<i>Number of staff</i>	<i>Number of staff</i>	<i>Number of staff</i>	2014 <i>Number of staff</i>	Date <i>Number of staff</i>
Government and statutory bodies	12	5	1	—	—
Financial institutions	86	64	65	80	80
General business enterprises	<u>4</u>	<u>9</u>	<u>17</u>	<u>1</u>	<u>—</u>
Total	<u>102</u>	<u>78</u>	<u>83</u>	<u>81</u>	<u>80</u>

**BUSINESS**

**Our seconded staff**

Our seconded staff mainly include architect, system analyst, and analyst programmers/programmer who are responsible for handling IT-related matters, such as system administration, business intelligence, system design and development, for our customers engaged in different industries.

The various types of seconded staff and their respective responsibilities are as follows:

<b>Position</b>	<b>Responsibilities</b>
Architect	<ul style="list-style-type: none"> <li>● Design and carry out implementation of application development framework</li> <li>● Lead development team in applying application development practices and technologies</li> <li>● Provide consultancy service for reviewing and revising overall system architecture</li> </ul>
System analyst	<ul style="list-style-type: none"> <li>● Analyse and design application functions based on user requirements</li> <li>● Lead development team in implementing functional development, testing, deploying and maintaining system</li> </ul>
Analyst programmer/ programmer	<ul style="list-style-type: none"> <li>● Develop application functions using applied technologies and practices</li> <li>● Assist team in program coding, testing, bug fixing, deployment and maintaining system</li> </ul>

The following table sets out the breakdown of the number of our staff on secondment to our customers by grading as at the end of each of the periods during the Track Record Period and as at the Latest Practicable Date:

<b>Grading</b>	<b>As at 31 March</b>			<b>As at</b>	<b>As at</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>30 September</b>	<b>the Latest</b>
	<i>Number of staff</i>	<i>Number of staff</i>	<i>Number of staff</i>	<b>2014</b>	<b>Practicable</b>
				<i>Number of staff</i>	<b>Date</b>
					<i>Number of staff</i>
Architect	2	2	4	2	2
System analyst	27	22	38	33	32
Analyst programmer/ programmer	<u>73</u>	<u>54</u>	<u>41</u>	<u>46</u>	<u>46</u>
<b>Total</b>	<u><u>102</u></u>	<u><u>78</u></u>	<u><u>83</u></u>	<u><u>81</u></u>	<u><u>80</u></u>

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If any of our seconded staff resigns, we shall notify our customers within a reasonable period and, if requested, will find a replacement staff for our customers. If our customers are not satisfied with the performance of the seconded staff or if our seconded staff fail to meet the customers' standards, we shall find a replacement staff provided that our customers' request is reasonable. Nevertheless, our customers have the right to terminate the secondment agreements by giving the agreed period of advance notice.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints in relation to the performance of our seconded staff other than request for replacement of seconded staff nor had we received any complaints from our customers in respect of any deficiency of our complaints' handling procedures or the manner in which we had handled any particular complaint.

We, being the employer of our seconded staff, are responsible for handling their employment related administrative work, such as preparing employment contracts, payroll calculation and processing, administering employee benefits, providing them with employee's compensation insurance and preparing and filing relevant employer's return and notifications to the IRD.

Our Directors consider that the entry barrier of secondment service is low; however, given that our Group has a good understanding of our customers' businesses, products and industries, our seconded staff have an edge, being equipped with the specific skill-sets and technical support in order to meet our customers' needs.

### **Salient terms of the secondment service agreement**

Our secondment service agreements during the Track Record Period usually contain the following provisions: (i) the scope of our services; (ii) the basis of our service fees, which is usually a fixed monthly rate (and pro rata) chargeable on a monthly basis, and payment terms of our seconded service fees; (iii) requirements for seconded staff; (iv) the duration of the agreement, which may be a fixed term ranging from approximately 4 months to 18 months subject to early termination by one month's written notice served by either party.

### **Service fees**

All the secondment service fees and arrangements are agreed between our customers and us upon the signing of the secondment service agreements before the commencement of secondment services and shall remain unchanged during the contract period unless otherwise mutually agreed. The pricing of secondment services depends on factors such as experience and qualification of the seconded staff, the salary of the seconded staff and the prevailing market rate.

Our service fees are generally charged on a monthly basis. Our seconded staff may be required to fill in a time-sheet each month detailing the number of days or hours worked and over-time spent for our customers. The time-sheet will be submitted to our customers for verification. Subject to the approval of the time sheet by our customers, we shall issue an invoice to our customers based on the rate agreed upon in the secondment service agreement. Some of the secondment service agreements might specify service fee caps for the fees chargeable by us during the term of those secondment service agreements.

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It generally takes about one to two week(s) from the end of the preceding month for our customers to verify and approve the time sheet after our submission. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any incident where our customers had withheld approval of the payment to us nor had we received any complaints from our customers about material errors in time sheet entry.

**PROVISION OF MAINTENANCE AND SUPPORT SERVICES**

We offer a range of maintenance and support services to our customers in relation to (i) third party hardware, software and systems and (ii) applications developed by us. In general, our maintenance and support services help our customers to keep their IT systems in good working order, identify and resolve errors and defects in the hardware, software and systems and solve such problems.

Following the completion of the project and acceptance by our customers or the expiry of the warranty period (if any) of our IT application and solution development, if our Customers wish to continue retaining our services to ensure the smooth running of their solutions, they will usually enter into a separate maintenance agreement with us. We may also be engaged by customers for whom we have not provided any IT application and solution development to provide maintenance and support services for their existing IT systems.

Our customers of maintenance and support services mainly include government and statutory bodies, financial institutions and general business enterprises including multinational customers.

The table below shows the number of agreements from which revenue from our maintenance and support services segment was derived during the Track Record Period:

<b>2012</b>		<b>Year ended 31 March 2013</b>		<b>2014</b>		<b>Six months ended 30 September 2014</b>	
<i>Number of agreements</i>	<i>Approximately HK\$'000</i>	<i>Number of agreements</i>	<i>Approximately HK\$'000</i>	<i>Number of agreements</i>	<i>Approximately HK\$'000</i>	<i>Number of agreements</i>	<i>Approximately HK\$'000</i>
19	16,954	28	18,825	26	19,614	25	9,933

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**Maintenance and support services agreements**

Set out below are the maintenance and support services agreements in force with over one year of remaining service period as at the Latest Practicable Date:

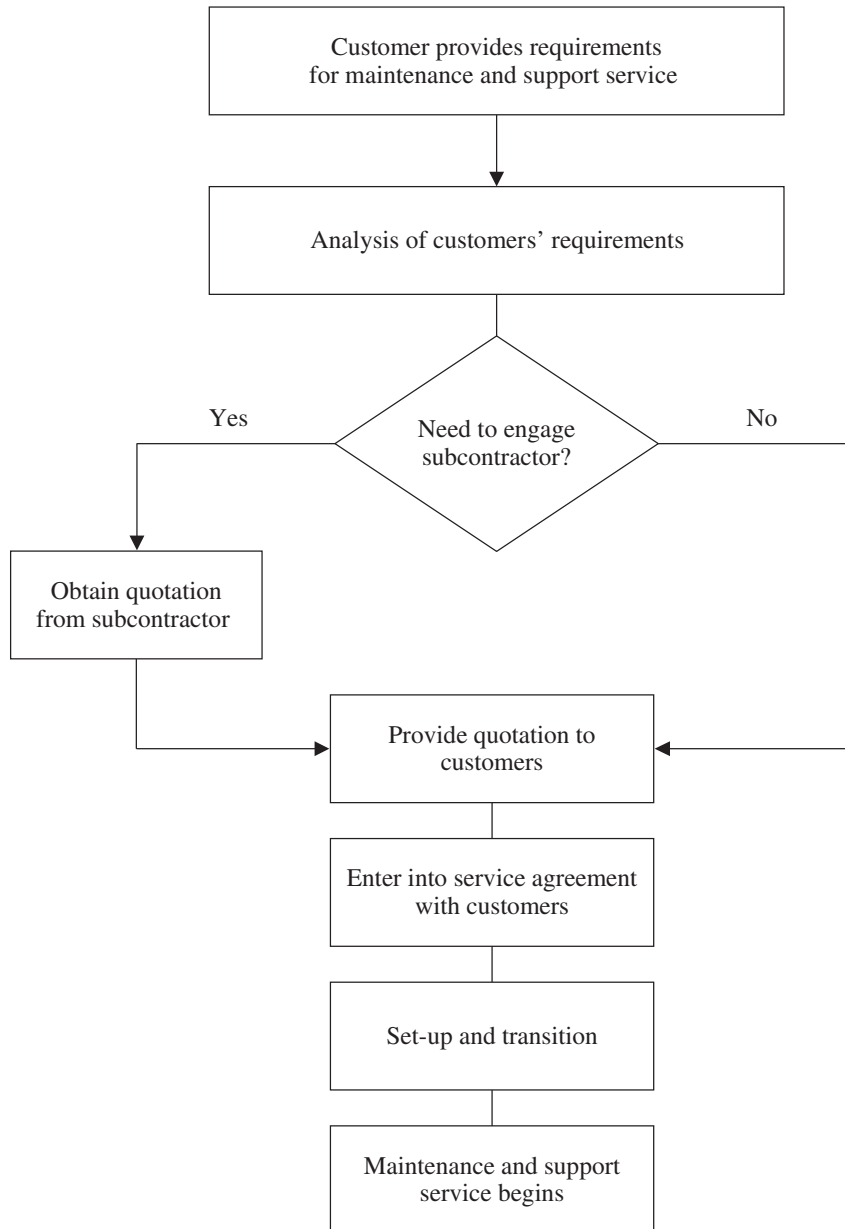
End customer's business nature	Maintenance work handled by	Type of products	Maintenance period		Total revenue recognised as at 30 September 2014 HK\$'000	Total contract value HK\$'000
			From	to		
Government body	Our Group	Maintenance and support for exit/entry system	July 2004	October 2016	26,141	36,388
Government body	Our Group	Maintenance and support for workflow management system	September 2007	September 2016	8,587	10,958
Government body	Our Group	System maintenance and support service	December 2014	May 2016	Nil	1,428
Government body	Our Group	Maintenance and support for system	March 2018	March 2027	Nil	over 500,000

The agreements entered into between our customers and our Group for maintenance and support services agreements in force with over one year of remaining service period as at the Latest Practicable Date are legally binding long-term agreements. The duration of the agreements is for fixed terms, extendable for a further period prior to the expiry of the term. Our customers may terminate the contracts by giving the requisite period of written notice. The maintenance fees are fixed annual amounts inclusive of all taxes and expenses that may arise in relation to the carrying out of the maintenance and support services. Any out of scope work will only be paid for if our Group goes through the change request procedure and if the additional fees are mutually agreed by both parties.



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The below chart illustrates a typical workflow of our maintenance and support services:



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When we receive a maintenance and support service request from our customers, we shall first ascertain our customers' requirements. We shall conduct due diligence baseline study which identifies among others, manpower requirements, hardware requirements, software requirements and budgets.

If services are required from a subcontractor, we shall obtain a quotation from them. Based on the resource plan, we shall estimate our approximate charges for maintenance and support services and finalise the terms of the agreement with our customers. Once we have entered into an agreement with our customers, we shall proceed to carry out setting up and transition work during which we shall setup the helpdesk, assign helpdesk and onsite support engineers to the project and assign a project manager to act as the point of contact for our customers.

### **Our scope of work**

We normally state our scope of work in our maintenance and support agreements with our customers. Our scope of work under maintenance and support services can be broadly categorised into the following:

#### *Service helpdesk*

We shall provide dedicated phone numbers or email addresses as first tier contact for our customers. Through our service helpdesk, we provide application support to our customers such as answering usage-related problems, fixing application problems and coordinating problem reporting.

We normally state out our service hours in the agreement. Some of our hotline/email services are outsourced.

#### *IT systems administration, management and capacity planning*

We provide system, database and network administration and management services to our customers. For system and database, we act as the IT system and database administrator to perform all system and database administration tasks to support and maintain the IT systems. We carry out work such as user account management, access control management, password policy setting, backup and recovery strategy and procedures formulation, disk management and security control. We also provide system recovery and data restoration services in order to maintain the availability and reliability of the IT system.

We also help our customers monitor the performance and capacity of their IT systems by reviewing their sizing model, capacity requirement and monitoring system utilisation. We then assess the cost implications for consequential changes and make suggestion to our customers. System tuning and housekeeping work will be carried out if necessary.

#### *IT Security management*

We provide IT security monitoring services that include proactive alert on system vulnerabilities and security threats such as virus, worms or other malicious activities. Once a security vulnerability or threat is identified, we help our customers apply patches or re-configure

## BUSINESS

their IT systems to fix or remove such vulnerability or threat. We also help our customers perform health checks of their IT systems and recommend equipment and systems that can cope with their business changes.

### *Maintenance*

In the event that a defect in the hardware, software or system is identified, we shall perform maintenance service to remedy any defects. In case of hardware maintenance, we may carry out inspection on site and if the defects can only be fixed by the hardware manufacturer, we shall have to send the hardware to the manufacturer for maintenance. Subject to the agreement, we may have to loan hardware to our customers to replace the faulty hardware temporarily.

In case of software maintenance, we may first simulate the scenario, identifying the cause and assessing its impact, and then we shall recommend solutions or work-arounds, implement them and carry out regression test.

### *System changes, enhancements and patch management*

New or upgraded version of software may be released during the term of maintenance and support service. These new or upgraded version of software may contain bug fixes, new features and minor enhancements. We help our customers install and integrate such new or upgraded software in their IT systems.

We may design, modify and enhance third party software to meet the requirements of our customers. We also update the relevant documentation related to the system changes and enhancements. We may provide user training in respect of the enhancements and system changes.

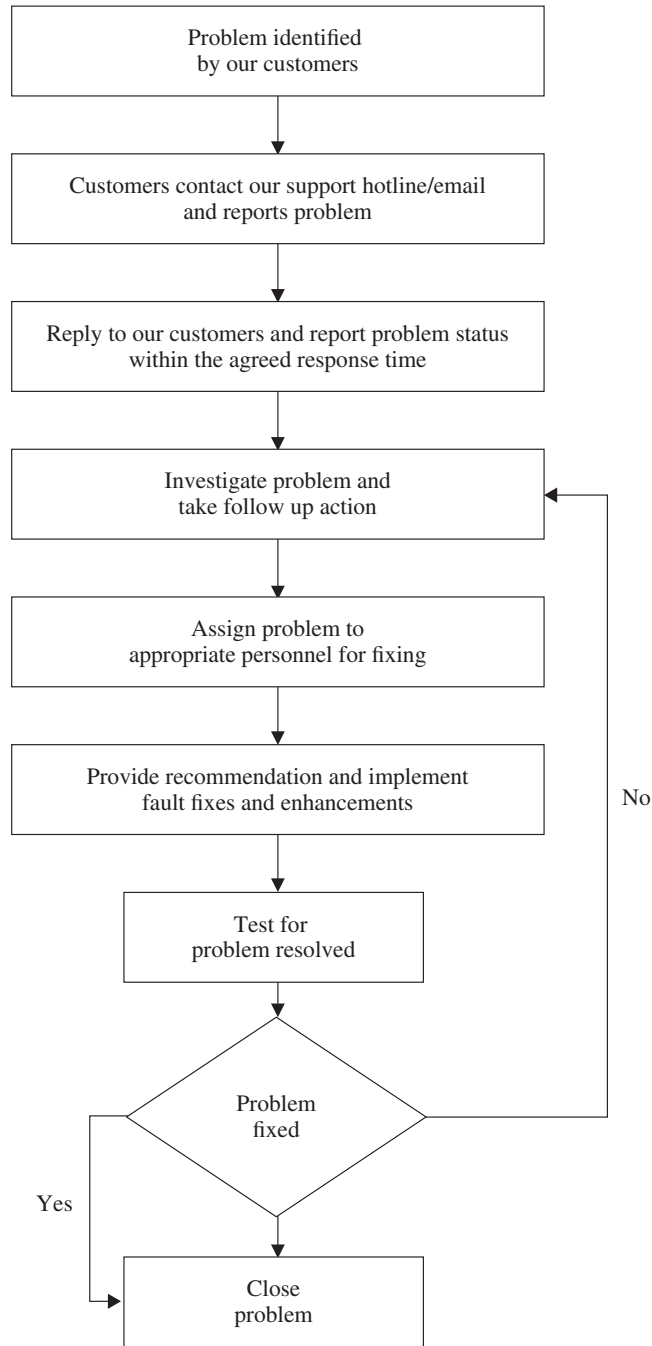
We also provide patch management service where we deploy and test system patches or firmware provided by third parties in a test environment before deploying them in our customers' production environment.

### **Our maintenance and support service workflow**

Once our customers encounter a problem with their IT systems, they would contact our support helpdesk through telephone or email. Our helpdesk representative will then despatch our customers' request to the relevant technical staff. Our staff may gather system log, trace or screen capture to conduct diagnosis. Our technical staff may also investigate the problem through remote access to our customers' systems. If such problem cannot be tackled over the telephone or email, our technical staff may have to provide on-site support. When the problems are tackled, we may have to prepare reports to our customers.

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Our typical workflow for maintenance and support service is illustrated as follows:



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### **Salient terms of the maintenance and support service agreement**

Our maintenance and support service agreements usually contain the following provisions: (i) the scope of our services; (ii) service hours; (iii) our response time in connection with our customers' maintenance and support service request; and (iv) the basis of our service fees, which is usually a fixed rate. During the Track Record Period, the duration of our maintenance and support services agreements was usually for a fixed term ranged from one year to ten years.

#### **Service fees**

All the maintenance and support service fees and arrangements are agreed between our customers and us upon the signing of the agreements before the commencement of maintenance and support services and shall remain unchanged during the contract period unless otherwise mutually agreed.

We take into account various factors when pricing our maintenance and support services, including the cost of our suppliers, the scope of work, the required service level and the complexity of our customers' IT systems.

### **PROVISION OF IT INFRASTRUCTURE SOLUTIONS**

We design, build and optimise our customer's backbone network and IT systems. Our Group provides IT infrastructure solutions to customers by integrating servers with different platforms, storage systems, security systems, software, networking equipment, backup solution, office automation, professional services, etc. sourced from different hardware and software suppliers. The IT infrastructure solutions normally will not involve any software development.

Our IT infrastructure solutions mainly cover the following services:

- |                               |   |
|-------------------------------|---|
| <b>Network solution</b>       | <ul style="list-style-type: none"><li>● Sizing, topology design, and implementation of network solution such as building a secure local area network with high availability.</li></ul>  |
| <b>IT systems solution</b>    | <ul style="list-style-type: none"><li>● Sizing, design and implementation of various IT systems including servers, operation systems, storage and recovery systems and security systems.</li><li>● IT systems migration and optimisation such as operation systems upgrade and migration, and servers consolidation, optimisation and virtualisation.</li></ul> |
| <b>Backup solution</b>        | <ul style="list-style-type: none"><li>● Sizing, design and implementation of traditional backup solution, and virtual tape library backup solution</li></ul>  |
| <b>Visualisation solution</b> | <ul style="list-style-type: none"><li>● Support for visualisation platform including AIX, Windows and Linux System</li></ul>  |

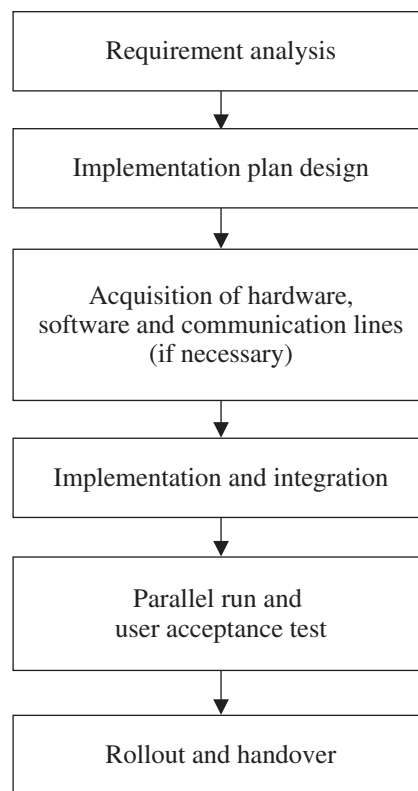
When our customers come to us with requests to update and/or change their existing infrastructure, our technical and sales team will first study their requirements taking into consideration of their present and future needs. Then, we shall design, select and propose the most appropriate hardware and software,

## BUSINESS

come up with an implementation plan and package it into an IT infrastructure solution that suits our customers' individual needs. We shall then obtain quotations from each of the suppliers for the relevant hardware and software. For larger suppliers who may distribute their products through distributors, our suppliers send us their price lists weekly. As the prices offered by distributors generally conform with the prices in the supplier's price list, we contact individual distributors to get a sense of their stock levels for the products we are interested in. We shall then prepare a quotation for our customers for the entire IT infrastructure solution, taking into account the various quotations provided by our suppliers as well as services provided by our Group.

Once the quotation is accepted by our customers, our Group will then reserve appropriate resources and place orders with various suppliers for various hardware and software in accordance with the IT infrastructure solution plan. Our suppliers usually deliver their products directly to our customers' offices, where we shall proceed to install and implement the solution. Successful implementation of the IT infrastructure solution is finally followed by payment by our customers within their respective credit periods.

The following chart illustrates the typical workflow of our IT infrastructure solutions:



We generally carry out the following tasks in each of the above stages:

**Requirement analysis**

- Study customers' existing IT environment
- Determine and confirm customers' requirements

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- Implementation plan design**
  - Provide implementation plans including IT systems set up, testing, migration, cutover and fallback
  - Provide updated proposal on existing network, hardware and software (if necessary)
  - Define site preparation requirements and cabling requirements (if necessary)
- Acquisition of hardware and software and communication lines (if necessary)**
  - Prepare acquisition proposal of hardware and software and communication lines
  - Make relevant licence applications for strategic commodities to the Strategic Trade Controls Branch of the Trade and Industry Department (if necessary)
  - Monitor delivery of hardware and software
- Implementation and integration**
  - Conduct site preparation and cabling work (if necessary)
  - Carry out installation, configuration and reliability test of hardware, software and communication lines supplied by third parties (if any)
  - Configure and customise the hardware and software for the integration with the existing IT environment
  - Perform functional and integration test
  - Perform data migration and update for existing IT systems
- Parallel run and user accept test**
  - Parallel run with existing system
  - For new system, select certain users to perform production rehearsal
- Rollout and handover**
  - Handover to customers

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### Revenue generated from the provision of IT infrastructure solutions by geographical location

The table below illustrates the breakdown of our revenue from IT infrastructure solutions by Hong Kong and the PRC during the Track Record Period and periods mentioned below:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Hong Kong	118,185	94.9	103,957	95.8	108,031	100.0	53,748	100.0	50,228	100.0
PRC	6,377	5.1	4,563	4.2	—	—	—	—	—	—
	<u>124,562</u>	<u>100.0</u>	<u>108,520</u>	<u>100.0</u>	<u>108,031</u>	<u>100.0</u>	<u>53,748</u>	<u>100.0</u>	<u>50,228</u>	<u>100.0</u>

Our IT infrastructure solution business in the PRC was discontinued through the Disposal on 1 April 2013.

### Revenue generated from the provision of IT infrastructure solutions by industry sector

During the Track Record Period, the end-users of our IT infrastructure solutions include government and statutory bodies in Hong Kong, financial institutions (including banks and insurance companies) in Hong Kong and other general business enterprises (including both local and multi-national customers in Hong Kong and the PRC).

The following table sets out our Group's revenue generated from our provision of IT infrastructure solutions by industry sectors during the Track Record Period:

	Year ended 31 March			Six months ended
	2012	2013	2014	30 September 2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Industry sectors</b>				
Government and statutory bodies	2,190	3,700	964	220
Financial institutions	34,821	52,104	61,285	26,509
General business enterprises	<u>87,551</u>	<u>52,716</u>	<u>45,782</u>	<u>23,499</u>
Total	<u>124,562</u>	<u>108,520</u>	<u>108,031</u>	<u>50,228</u>

### Duration of our IT infrastructure solutions

The duration of our IT infrastructure solutions ranged from approximately one week to five years. The duration varies and largely depends on the scale of the IT infrastructure and the scope of work assigned to us.



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### **Return and warranty**

The hardware and software components that make up our IT infrastructure solutions come with original warranties offered by our suppliers which usually range from 12 months to 24 months. In the event there are any defects with the hardware and/or software, our customers may contact our suppliers directly to rectify the defects or failing which, to obtain a refund. During the Track Record Period, we have not encountered any material refund.

### **INTERNAL CONTROL**

In order to mitigate the significant risks inherent to our business model, we have adopted and implemented certain policies and internal control. Our Directors are responsible for monitoring our internal control system and reviewing its effectiveness. Our independent internal control consultant, Lau & Au Yeung C.P.A. Ltd. performed an assessment on our internal control systems including reviewing guidelines and policies which are implemented through our operational process. No material insufficiency and ineffectiveness on the internal control system had been identified by our internal control consultant. Below are some internal control measures we have implemented to mitigate certain risk factors of our business.

#### **Cash flow management to mitigate the risk of cash flow mismatch**

Among our business segments, we consider that the cash flow risk in respect of our maintenance and support services and secondment is the lowest as receivables are recognised prior to the performance of our services and/or placing of orders with suppliers. In respect of our IT application and solution development since our customers make payment after signing off the relevant payment milestone deliverable, our Directors consider that the cash flow risk is higher.

To manage our cash flow risk, after we issue invoices to our customers, a record of the invoice is entered onto the invoice register maintained by our accounting team. Our accounting team will then monitor the settlement of invoices by our customers to ensure that payment is made by our customers within the credit periods granted to them and update the account receivables ageing report monthly. Our accounting staff check the ageing of trade debts on a monthly basis, and overdue trade debts are passed to our project team members for follow up with the respective customers. Our accounting team prepares a monthly cash flow report which is submitted to our executive Directors.

We also enhance our cash flow management system by preparing a 12-month cash flow projection bi-yearly. Each business segment individually estimates the future cash inflow based on existing and projected contracts/orders and the projected outgoing costs. The consolidated information from all business segments is presented to our executive Directors for their review. Each business segment reviews their estimations quarterly so that the cash flow projection may be updated if necessary. On a quarterly basis, our accounting team also compares the cash flow projection with the actual performance and budget of our Group and produces a variance analysis for our executive Directors' review.

#### **Liquidity management**

To maintain our liquidity going forward, we have adopted policies for preparing and reviewing monthly cash flow forecast report to estimate the available fund balances which sets out cash inflow and outflow of each line of businesses. The report also sets out closing balances for all the bank accounts,

## **BUSINESS**

amounts of trade debtors by ageing, amounts of trade creditors by ageing, bank borrowings, limits of available facilities, and outstanding and available balances by each facility. The report will assist our management to forecast significant cash flow shortfall in advance and make necessary business decision to mitigate the shortfall in a timely manner. With reference to the cash balances and the monthly report, we are able to manage the credit period granted to customers and the collection from outstanding trade debtors.

### **Controls over project delay and cost overrun**

As required by our QMS, we produce QM trails at the start of each project and/or service to help us plan the delivery timeline of our projects and/or services and ensure that the timeline is strictly followed by our project teams.

Before entering into a contract or submitting a tender, our Group first works out a resource plan with reference to our customers' requirements to assess the time required to complete the project and/or service. Based on the resource plan, our project team produces a weekly plan containing details of specific work that is to be performed by various team members. Our project team meets at least weekly to discuss the progress and any material deviation from the weekly plan is reported to the project director. Project director will also notify our executive Directors of any possible delay of completion of any milestones so that any impact on cash flow and operation result can be reported to our executive Directors. Our Directors believe that by strict monitoring of our work progress, we are able to ensure timely delivery and detect risks of cost overrun at an early stage. For further details of our quality management system, please refer to the section headed "Quality Control" under the section headed "Business" in this [REDACTED].

### **Limitation on liability**

We may be exposed to potential liabilities for damages or injuries caused by our negligent acts or omissions in the provision of our services. We generally negotiate with our customers to include a contract provision which limits our liability to two times of the total fees received by us under the contracts for IT application and solution development. In respect of contracts for secondment services, we generally include a contract provision which limits our liability to the contract sum. Furthermore, as required by our internal guidelines, contracts with sums of over HK\$10.0 million or contract liability over two times of the contract sum require approval by our Directors. In respect of contracts with special terms and conditions, we actively seek legal advice to clarify the scope of our potential liabilities.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material claim, legal action or lawsuit from our customers in connection with any negligent acts or omissions in our provision of services, or supply of defective hardware and software.

### **Controls over authorised use of software**

If computers of former staff members are assigned to new staff, our Group takes care in reformatting the computers to remove all traces of potentially confidential information that may have been accessed by the former staff. We monitor the types of software used by our staff by requiring each staff to make an application to their respective project managers before the installation of new software.

## **BUSINESS**

To ensure that our staff do not use, install or download unauthorised software, we have assigned a senior staff to perform random surprise checks on employees' computers to check for the presence of illegal software.

### **Mitigation of risk of breaching confidentiality obligation to our customers**

Our staff may come into possession of certain proprietary or confidential information pertaining to our customers or their businesses while they perform their duties to our customers. During the course of their secondment, our seconded staff may have access to confidential information relating to our customers' data. We have issued to staff internal guidelines in respect of the handling of confidential information. Furthermore, before the commencement of a secondment, the secondment staff will be briefed in respect of the code of conduct adopted by the particular customer and provided with the customer's guidelines. Each project team has a team member who is responsible for overseeing the ethical behaviour of each team member and communicating with our customers to keep track of any complaints in respect of staff behaviour. Furthermore, our staff may be required to sign a non-disclosure agreement or confidentiality undertaking as requested by our customers.

During the Track Record Period and up to the Latest Practicable Date, we have not had any complaints or incidents of leakage or misappropriation of our customers' confidential information.

### **Ensuring compliance with bank covenants**

Our company secretary is responsible for monitoring the compliance with our bank covenants. Our company secretary will prepare and update a summary of terms and conditions of banking facilities and immediately upon any change in banking facilities or receiving any notice from banks. The summary will highlight the important bank covenants and requirements, in particular, those which are linked to financial indicators such as net asset value and profit.

Our company secretary will regularly review the monthly financial statements to ensure the financial indicators are in compliance with the bank covenants. On a quarterly basis, our company secretary will report the summary to our executive Directors to inform the Board of any material changes or new requirements.

If our company secretary identifies any potential breach of covenants, the incidents will be brought to the attention of our executive Directors immediately and the Board will be notified by our executive Directors. Our company secretary will communicate with the bank, if necessary, and make sure the non-compliance will be avoided.

### **Controls over use of fund pool of security sum**

In order to improve our control of cash flows and to maintain liquidity requirements for due performance set by some customers, our Group will set up a fund pool of security sum and the fund will be placed in a segregate bank account from the normal operating accounts of our Group. A portion of the net proceeds from the [REDACTED] of approximately HK\$[REDACTED] will be injected to the fund pool. The fund should be used to invest in capital protected products or short-term interest bearing deposits. The fund cannot be used for other purposes, save for reallocation for expansion of IT

## BUSINESS

application and solution development business such as strengthening tender capabilities. The size of the fund shall be reviewed by the audit committee annually. Any adjustment of policy of the use of fund shall be approved by both the Board and the audit committee.

### **Business allocation measures between ICO HK and ICO Technology**

#### *For new customers*

All (i) IT application and solution development services; (ii) secondment services; and (iii) maintenance and support services will be referred to ICO HK. All IT infrastructure solutions will be referred to ICO Technology.

#### *For existing customers*

If existing customers of IT infrastructure solutions of ICO Technology wish to engage us for (i) IT application and solution development; (ii) secondment services; and (iii) maintenance and support services, the relevant engagement will be referred to ICO HK.

If our existing customers who have already engaged ICO HK to provide (i) IT application and solution development, (ii) secondment services, or (iii) maintenance and support services and wish to further engage us to provide IT infrastructure solutions for supporting the existing projects, ICO HK shall provide IT infrastructure solutions.

The above measures have been implemented since 2006. The implementation of the above measures are overseen by our Directors.

## **SALES, MARKETING AND CUSTOMERS**

### **Customers**

Our customers include government and statutory bodies, financial institutions and enterprises of various scales. We had approximately 216, 198 and 137 customers for each of the three years ended 31 March 2012, 2013 and 2014 and 109 customers for the six months ended 30 September 2014 respectively. Set out below is a breakdown of revenue by industry sector during the Track Record Period and the periods mentioned:

	Year ended 31 March						Six months ended 30 September			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Government and statutory bodies	13,086	5.9	19,798	10.1	14,441	7.6	10,214	10.8	2,157	2.4
Financial institutions	75,259	34.1	87,310	44.5	93,936	49.4	40,484	42.8	46,029	51.9
General business enterprises	132,342	60.0	89,044	45.4	81,607	43.0	43,956	46.4	40,529	45.7
	<u>220,687</u>	<u>100.0</u>	<u>196,152</u>	<u>100.0</u>	<u>189,984</u>	<u>100.0</u>	<u>94,654</u>	<u>100.0</u>	<u>88,715</u>	<u>100.0</u>

In respect of IT application and solution development projects, a main contractor who subcontracts IT application and solution development work to us is considered to be our customer.

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In respect of secondment and maintenance and support services of our Group, we have entered into contracts with our customers for fixed terms normally ranging from approximately four months to ten years which may be renewable for a further term. For details of our secondment and maintenance and support services, please refer to the sections headed "Provision of secondment service" under the section headed "Business" and "Provision of maintenance and support services" under the section headed "Business". In respect of our other services offered, contracts are entered into with our customers on a project-by-project basis. Save for the abovementioned, we have not entered into any long term agreements with any of our customers.

During the Track Record Period and up to the Latest Practicable Date, our Group has not received any material complaints from our customers.

The following table sets out our top five customers for the year ended 31 March 2012:

Customer	Background	Types of products/services supplied/provided by us	Revenue from the customer (HK\$ million)	Percentage of our Group's total revenue	Year(s) of relationship with our Group as at 31 March 2012
Customer A	Retail bank	Secondment services	38.6	17.5	6.4
Customer B	Global IT outsourcing company	IT infrastructure solutions	30.4	13.8	4
Customer C	Multinational technology and consulting corporation	IT application and solution development, and maintenance and support services	23.2	10.5	15.3
Customer D	Global transportation and logistics company	IT application and solution development, and maintenance and support services	13.1	5.9	4.1
Customer E	Retail bank	IT application and solution development, and IT infrastructure solutions	12.5	5.7	6
<b>Total</b>			117.8	53.4	

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The following table sets out our top five customers for the year ended 31 March 2013:

Customer	Background	Types of products/services supplied/provided by us	Revenue from the customer (HK\$ million)	Percentage of our Group's total revenue (%)	Year(s) of relationship with our Group as at 31 March 2013 (approximately)
Customer E	Retail bank	IT application and solution development, secondment services and IT infrastructure solutions	31.7	16.2	7.0
Customer A	Retail bank	Secondment services	31.3	16.0	7.4
Customer C	Multinational technology and consulting corporation	IT application and solution development, and maintenance and support services	20.3	10.3	16.3
Customer B	Global IT outsourcing company	IT infrastructure solutions	12.4	6.3	5.0
Customer D	Global transportation and logistics company	IT application and solution development, secondment services, and maintenance and support services	9.9	5.0	5.2
<b>Total</b>			105.6	53.8	

The following table sets out our top five customers for the year ended 31 March 2014:

Customer	Business nature	Types of products/services supplied/provided by us	Revenue from the customer (HK\$ million)	Percentage of our Group's total revenue (%)	Year(s) of relationship with our Group as at 31 March 2014 (approximately)
Customer A	Retail bank	Secondment services	27.5	14.5	8.4
Customer E	Retail bank	Secondment services and IT infrastructure solutions	26.1	13.7	8.0
Customer C	Multinational technology and consulting corporation	IT application and solution development and maintenance and support services	18.3	9.6	17.3
Customer F	Retail bank	Secondment services and IT infrastructure solutions	13.2	7.0	2.3
Customer G	Government and statutory body	IT application and solution development, secondment services and IT infrastructure solutions	9.4	5.0	4.5
<b>TOTAL</b>			94.5	49.8	

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The following table sets out our top five customers for the six months ended 30 September 2014:

Customer	Business nature	Types of products/services supplied/provided by us	Revenue from the customer (HK\$'million)	Percentage of our Group's total revenue (%)	Year(s) of relationship with our Group as at 30 September 2014 (approximately)
Customer A	Retail bank	Secondment services	16.5	18.6	8.9
Customer E	Retail bank	Secondment services and IT infrastructure solutions	15.6	17.6	8.5
Customer C	Multinational technology and consulting corporation	Maintenance and support services and IT infrastructure solutions	7.2	8.1	17.8
Customer B	Global IT outsourcing company	IT infrastructure solutions	6.1	6.9	6.5
Customer H	Design, marketing and distribution of premium lifestyle products	IT infrastructure solutions	3.5	4.0	2.6
<b>TOTAL</b>			48.9	55.2	

During the Track Record Period, the revenue from our five largest customers accounted for approximately 53.4%, 53.8% and 49.8% of our total revenue for each of the three years ended 31 March 2012, 2013 and 2014 respectively. Meanwhile, the revenue from the largest customer accounted for approximately 17.5%, 16.2% and 14.5% of our total revenue for the corresponding periods respectively. For the six months ended 30 September 2014, the revenue from our five largest customers accounted for approximately 55.2% of our revenue and the revenue from the largest customer accounted for approximately 18.6% of our revenue. Our Directors believe that our Group is not threatened by concentration risk in relation to the largest customer.

*Relationship with Customer C (or Supplier B)*

Customer C is a company incorporated in Hong Kong; it is a group company of an international technology and consulting corporation based in the US. Customer C is a provider of IT services and business solutions in Hong Kong which include, among other things, hardware, software and business services. Its customers include government bodies and different kinds of enterprises in major industries such as financial services, retail and communication. Being one of our largest customers, Customer C, acting as the main contractor of IT application and solution development projects and maintenance and support projects, subcontracted work to our Group. Customer C is also one of our major suppliers (known as Supplier B) with which we have entered into a business partner agreement and purchased from them products for our provision of IT application and solution development (other than work subcontracted by Customer C) and IT infrastructure solutions. The revenue derived from the provision of IT application and solution development and maintenance and support services to Customer C by way of subcontracted work, accounted for approximately 10.5%, 10.3% and 9.6% of our revenue for each of the three years ended 31 March 2012, 2013 and 2014 and 8.1% of our revenue for the six months ended 30

## **BUSINESS**

September 2014 respectively. The cost of products purchased from Supplier B in association with our provision of IT application and solution development and IT infrastructure solutions accounted for approximately 13.4%, 4.0% and 12.5% of our total cost of sales for each of the three years ended 31 March 2012, 2013 and 2014 and 9.6% of our total cost of sales for the six months ended 30 September 2014 respectively.

The profit margin charged on Customer C during the Track Record Period and up to the Latest Practicable Date is comparable to our other customers.

Our Directors confirm that none of the Directors, their respective close associates or, so far as our Directors are aware, any of our existing Shareholders who own more than 5% of the share capital of our Company, have any interest in any of the five largest customers of our Group during the Track Record Period.

### **Sales and marketing**

As at the Latest Practicable Date, our Group's sales and marketing team had six team members in Hong Kong. They are responsible for identifying business opportunities, generating sales leads, building relationship with our customers and building our brand awareness.

Our IT solutions services provided to customers are identified through competitive bidding in open tenders, invitations from main contractors or direct negotiations with our customers by our project teams. The terms of our maintenance and support services are also directly negotiated between our project team and individual customers. As for secondment services, our customers are often introduced by referral or are recurring customers. Accordingly, the aforementioned three types of services offered by our Group are not particularly marketed through any sales and marketing activities. Our sales and marketing team is mainly responsible for the marketing and promotion of our IT infrastructure solutions, being our fourth type of services offered.

No rebates were given to any customers by our Group during the Track Record Period.

We market our brand and services through telephone marketing as well as seminars, talks, and luncheons. These activities allow our Group to demonstrate our Group's capabilities and to build relationship with existing or potential customers.

### **Credit control**

Our customers usually pay by cheque or through bank transfer.

The IT infrastructure solution projects normally range from one week to twelve months, with only a few exceptional projects having a length of over three years. We negotiate payment terms with our customers in order to maintain the liquidity of these exceptional projects. Customers are generally required to place a 50% deposit before our procurement team places orders with suppliers. Depending on the length of the IT infrastructure solutions projects, the remaining balance would be collected either in several milestones or upon completion of projects. All customers of our IT infrastructure solutions are required to settle the remaining balance within their respective credit periods after delivery and/or project completion. In respect of our maintenance and support services, we request for full payment upon entering into service agreement or a regular payment during the service period. In respect of our



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secondment services, we usually receive regular payment during the service period. On the other hand, credit terms are granted to customers of our IT application and solution development when they make payment to us by payment milestones.

Subject to the credit risk of specific customers and prevailing sales performance, we generally grant credit terms of 30 days to customers. The management and responsible staff conduct regular reviews on customers' payment history, length of relationship and overdue payments (if any), so as to revise the credit terms granted to them. As at 31 March 2012, 31 March 2013, 31 March 2014 and 30 September 2014, no impairment loss was recognised on trade debtors. Our Directors confirmed that during Track Record Period and up to the Latest Practicable Date, there have been no notification and indication of non-payment of our trade debtors or the need to make provisions for our inventories and trade debtors.

All of our trade debtors are denominated in either HK\$ or US\$. Approximately HK\$6.5 million, HK\$5.5 million and HK\$0.7 million of our general and administrative expenses were in RMB for each of the three years ended 31 March 2012, 2013 and 2014 respectively. As for the six months ended 30 September 2014, approximately HK\$0.2 of our general administrative expenses were in RMB.

### **SUPPLIERS**

Our suppliers mainly consist of hardware and software vendors or distributors in Hong Kong. We only source our products from the vendors directly or through their authorised resellers or distributors. Our Group purchases hardware and software to sell along with our solutions and services to our customers. Our suppliers also include service providers engaged by us to assist us in our provision of solutions and services. Other than that, due to the nature of our business, we have no major suppliers for our provision of services.

Other than the business partner agreement with Supplier B (also known as Customer C), we have not entered into any agreements with our suppliers. For details of the business partner agreement, please refer to the section headed "Business partner agreement with Supplier B" below.

We normally place orders on a project basis and in general do not keep any inventory. Given our cost plus pricing policy, we have been able to pass increase in purchase costs to customers. During the Track Record Period, we have not experienced any shortages or delay in supply that has significantly affected our business.

#### **Supplier selection**

Due to the nature of the IT industry, each product or service may only be offered by a handful of suppliers, minimising our choice of suppliers. Prospective suppliers are identified by our staff based on internal information and publicly available information found on the Internet and product catalogues. For certain products or services, our staff may obtain more information from suppliers.

We will select suppliers based on their understanding of our requirements, costs, technical capabilities, financial capacity, product capacity, business size and references among others. For IT vendors who may distribute their products through distributors, price lists are received by us on a weekly basis. As the prices offered by distributors generally conform with the prices in the IT vendors'

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price list, we contact individual distributors to understand their stock levels for the products we require. We will select distributors (who we also considered as our suppliers) based on their available stock, terms of delivery and relationship with us.

Once a supplier has been chosen, we shall execute a contract with the supplier, either in the form of a purchase order or a contract covering the statement of work, schedule, service term, roles and responsibilities, pricing and payment, acceptance criteria, warranty, insurance and termination.

Our top five suppliers include international IT vendors and distributors of hardware and software of major IT vendors. In addition to being one of our largest suppliers, Supplier D is also one of our major customers for provision of IT application and solution development.

The following table sets out our top five suppliers for the year ended 31 March 2012:

Supplier	Background	Products/services supplied/provided for	Transaction amounts (HK\$'million)	Percentage of cost of sales of our Group (%)	Year(s) of relationship with our Group as at 31 March 2012 (approximately)
Supplier A	Integrated IT service provider	IT infrastructure solutions	32.0	18.6	5.5
Supplier B	Multinational technology and consulting corporation	IT infrastructure solutions	23.1	13.4	5.5
Supplier C	Technology products distributor	IT infrastructure solutions	13.6	7.9	5.7
Supplier D	IT products distributor	IT infrastructure solutions	7.5	4.4	2.6
Supplier E	Technology products distributor	IT infrastructure solutions	5.2	3.0	5.3
<b>Total</b>			<b>81.4</b>	<b>47.3</b>	

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The following table sets out our top five suppliers for the year ended 31 March 2013:

Supplier	Background	Products/services supplied/provided for	Transaction amounts (HK\$ million)	Percentage of cost of sales of our Group (%)	Year(s) of relationship with our Group as at 31 March 2013 (approximately)
Supplier A	Integrated IT service provider	IT infrastructure solutions	29.5	19.6	6.5
Supplier D	IT products distributor	IT infrastructure solutions	29.0	19.2	3.6
Supplier B	Multinational technology and consulting corporation	IT infrastructure solutions	6.1	4.0	6.5
Supplier C	Technology products distributor	IT infrastructure solutions	7.5	5.0	6.7
Supplier E	Technology products distributor	IT infrastructure solutions	3.5	2.3	6.3
<b>TOTAL</b>			<b>75.6</b>	<b>50.1</b>	

The following table sets out our top five suppliers for the year ended 31 March 2014:

Supplier	Background	Products/services supplied/provided for	Transaction amounts (HK\$ million)	Percentage of cost of sales of our Group (%)	Year(s) of relationship with our Group as at 31 March 2014 (approximately)
Supplier D	IT products distributor	IT infrastructure solutions	30.4	20.1	4.6
Supplier A	Integrated IT service provider	IT infrastructure solutions	29.5	19.5	7.5
Supplier B	Multinational technology and consulting corporation	IT infrastructure solutions	18.8	12.5	7.5
Supplier E	Technology products distributor	IT infrastructure solutions	3.3	2.2	7.3
Supplier C	Technology products distributor	IT infrastructure solutions	2.7	1.8	7.7
<b>TOTAL</b>			<b>84.7</b>	<b>56.1</b>	

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The following table set out our top five suppliers for the six months ended 30 September 2014:

Supplier	Background	Products/services supplied/provided for	Transaction amounts (HK\$ million)	Percentage of cost of sales of our Group (%)	Year(s) of relationship with our Group as at 30 September 2014 (approximately)
Supplier D	IT products distributor	IT infrastructure solutions	15.0	22.0	5.1
Supplier A	Integrated IT service provider	IT infrastructure solutions	12.7	18.6	8.0
Supplier B	Multinational technology and consulting corporation	IT infrastructure solutions	6.5	9.6	8.0
Supplier F	Technology products distributor	IT infrastructure solutions	1.6	2.4	8.0
Supplier C	Technology products distributor	IT infrastructure solutions	0.9	1.4	8.2
<b>TOTAL</b>			<u>36.7</u>	<u>54.0</u>	

During the Track Record Period, total purchases made from our top five suppliers accounted for approximately 47.3%, 50.1% and 56.1% of our total cost of sales for each of the three years ended 31 March 2012, 2013 and 2014, respectively, and the purchases from our largest supplier accounted for approximately 18.6%, 19.6% and 20.1% of our total cost of sales for each of the three years ended 31 March 2012, 2013 and 2014 respectively. As for the six months ended 30 September 2014, total purchases made from our top five suppliers accounted for approximately 54.0% of our cost of sales, while the purchases from our largest supplier accounted for approximately 22.0% of our total cost of sales.

All of our top five suppliers are Independent Third Parties. None of our Directors, their close associates, or any of our current Shareholders who, to the best knowledge of our Directors, own more than 5% of the share capital of our Company, has an interest in any of our top five suppliers during the Track Record Period.

**Business partner agreement with Supplier B**

Our Group has been Supplier B's partner in Hong Kong for acquiring products from Supplier B or its distributors since 2005. Supplier B is also Customer C of our Group, please refer to the paragraph headed "Relationship with Customer C (or Supplier B)" under the section headed "Business" in this [REDACTED].

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As at the Latest Practicable Date, our Group has entered into a legally binding business partner agreement with Supplier B, details of which are summarised below:

- |                               |  |
|-------------------------------|--|
| (a) Product                   | (i) Hardware<br>(ii) Software<br>(iii) Services  |
| (b) Minimum annual attainment | USD 1,000,000  |
| (c) Pricing                   | The pricing of products will be adjusted by Supplier B from time to time. If prices are decreased and the products date of installation or service start date has not occurred, we may be eligible for credit. Supplier B may increase prices of products by giving three months' written notice.                  |
| (d) Geographical coverage     | Hong Kong  |
| (e) Term                      | 14 September 2013 to 13 September 2014 and automatically renewed until 13 September 2016.  |
| (f) Termination               | Either party may terminate the agreement on three months' written notice to the other.<br><br>If either party fails to comply with a material term of the Agreement, the other party may terminate the agreement by written notice to the non-compliance party.  |
| (g) Return policy             | If Supplier B or its subcontractor or the reseller is unable to repair the machine to make it function as warranted or replace it with one that is at least functionally equivalent, we may return the machine to its place of purchase and have the money refunded.   |
| (h) Product warranty          | Supplier B warrants that each machine is free from defects in materials and workmanship and conforms to its specifications.<br><br>Supplier B provides repair and exchange service for each machine according to the warranty period specified in the "warranty information" that ships together with the machine. |

If the above minimum annual purchase attainment cannot be achieved by our Group, our Group may have to refund the amount equal to the discount (or fee, if applicable) Supplier B has given to us for the products or services or Supplier B is entitled to offset any amounts due to us.

## **BUSINESS**

Our Group first entered into a business partner agreement with Supplier B in 2005. Under the business partner agreement in force as at the Latest Practicable Date, the minimum annual attainment was US\$1,000,000. Our Directors confirm that our Group was able to honour the minimum annual attainment clause under the business partner agreements during the Track Record Period and up to Latest Practicable Date and despite the deteriorating financial performance, our Directors consider that our Group will be able to honour the minimum annual attainment clause under the business partner agreement in the foreseeable future.

### **Incentive program**

Some of our suppliers have implemented incentive programmes to reward their business partners, including us, upon achievement of certain purchase targets on certain models and types of products. These programmes vary from time to time based on the then market conditions and their sale and marketing strategies in order to encourage more purchases from business partners.

## **INVENTORY MANAGEMENT**

Due to the large variety of hardware and software that we purchase and the rapidly changing technology, we generally do not keep any inventory and only place orders with suppliers upon confirmation of orders from customers on a back-to-back basis. This gives us flexibility to negotiate the price with our suppliers each time and allows us to keep updates on then IT development needs and latest technology trends through frequent communication with our customers and suppliers.

Normally, delivery of our orders takes place within 30 days after the supplier's confirmation of our purchase orders. Hardware and software purchased are usually delivered to our end-users directly by our suppliers. For items that are purchased and not delivered to the end-users directly, we engage a third party to provide temporarily storage.

## **QUALITY CONTROL**

### **Quality control and assurance**

Our quality control and assurance team members are drawn from our pool of project managers and are led by Mr. Lee and Mr. Yong. Each project we undertake is further overseen by a project steering committee that is responsible for overall quality assurance.

We have in place a QMS which sets out processes along with guidelines as to how these processes are to be applied to our solutions and services so as to ensure consistency and quality work. Our QMS includes guidelines for documenting work performed and reviewed by various team members in different stages of a project or service.

There are two types of QMS guidelines: (i) mandatory, which are required to be applied to every project and/or service; (ii) reference, which may be applied if appropriate. Through customisation, the quality control and assurance team will decide which QMS procedures and guidelines are applicable for the project and/or service at hand. If mandatory guidelines are not included, the quality control and assurance team will need to produce an exemption report for the approval of the project director prior to

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the commencement of a project and/or service. We call the documents required under the QMS, the QM trails. Depending on the size, complexity and requirements of a project and/or service various QMS guidelines will be adopted, producing different QM trails for each project and/or service.

For our IT solution projects, once a project has been commenced, our project managers will closely monitor the progress of the project in all respects to ensure that it meets our customers' requirements and is completed in accordance with the time scheduled. Project manager communicates regularly with our project directors to report the schedule and work done of the project. Our project team also holds regular project meetings with our customers to assess and review the progress of the projects and services and to identify and resolve any problems or issues which may arise during the course of carrying out our work.

**AWARDS AND RECOGNITIONS**

We have received various awards and recognitions for our projects and/or services from various customers, suppliers and business partners which, in our Directors' opinion, are recognitions of our achievements and quality works. These include:

<b>Granted by</b>	<b>Name of award/Recognition</b>	<b>Year awarded</b>
IBM China/Hong Kong Limited	— Partner of the year — Top contributor award—power systems—solution provider	2014
IBM China/Hong Kong Limited	Top contributor award software value partner	2013
Microsoft Partner Network	— Gold messaging — Gold devices and development — Gold server platform — Gold application lifecycle management	2012–2013
Microsoft Partner Network	— Gold messaging — Gold data platform — Gold virtualization — Gold desktop — Gold application lifecycle management — Gold communications	2012
IBM China/Hong Kong Limited	Platinum value partner	2011

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<b>Granted by</b>	<b>Name of award/Recognition</b>	<b>Year awarded</b>
Microsoft Partner Network	— Gold desktop — Gold data platform — Gold virtualization — Gold unified communications — Silver midmarket solution provider — Silver virtualization — Silver desktop	2011
Microsoft	Gold certified partner	2010–2011
E-Business Technology Institute, the University of Hong Kong	Certificate of appreciation for participation in the project-service platform for PRD waterway logistics operators	2009–2011
K2	Strategic business partner	2010
Microsoft Support	Authorised partner	2010
IBM China/Hong Kong Limited	Platinum value partner	2010
Microsoft	Certified partner-recognizing technological excellence and impact on customers through Microsoft products and services	2009–2010
Sophos	Platinum partner	2009–2010
Sophos	Gold partner	2009–2010
E-Business Technology Institute, the University of Hong Kong	Certificate of appreciation for participation in the project-RFID enabling platform technology for the integrated Shenzhen-Hong Kong food safety & supply chain management public information platform	2008–2010
Lenovo (Hong Kong) Limited	Gold value partner	2009
IBM China/Hong Kong Limited	Partner of the IBM BlueVantage Partner Program	2009
IBM China/Hong Kong Limited	Platinum value partner	2008
E-Business Technology Institute, the University of Hong Kong	Certificate of appreciation for participation in the project-RFID enabling technologies for retail & logistics industry	2007–2008



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Granted by	Name of award/Recognition	Year awarded
EMC	Pinnacle of excellence awarded to Q3 BURA Champion	2007
Business Objects	Gold partner	2007
VMware	Enterprise partner	2007
CIITA RFID China Alliance	Membership certificate	2006–2007
IBM	Rookie of the year	2006
E-Business Technology Institute, the University of Hong Kong	Certificate of appreciation for participation in the project-RFID enablement middleware for enterprise applications	2005–2006
Bearing Point (Asia Pacific) Limited	Letter of appreciation in respect of the deployment of an enterprise scale integration project for a major Hong Kong financial institution	2005

### MARKET AND COMPETITION

The IT services and solutions industry in Hong Kong is highly competitive and fragmented with presence of both local and foreign service providers. There were about 12,035 service providers in Hong Kong in 2013. The majority of these providers are engaged in IT integration solution services with about 80% of them being enterprises with less than 20 employees. Service providers mainly compete on brand name, reputation, customer relationship and service scope in the market.

According to the Ipsos Report, the top five service providers only accounted for about 5.0% of the total market revenue in 2013. We have been in the industry for over 20 years and we were the fourth largest IT service and solution provider in Hong Kong, representing a market share of 0.4% in terms of revenue in 2013.

According to Ipsos, partnership with renowned hardware/software manufacturers and lack of skilled talents set barriers for new entrants into the IT service and solution industry in Hong Kong.

For large scale IT application and solution development projects, our Directors believe that the entry barriers are relatively high as they generally require sophisticated technical know-how and extensive development experience. On the other hand, the entry barrier of secondment service is low. However, given that our Group has a good understanding of our customers' business, products and industries, our seconded staff have an edge, being equipped with the specific skill-sets and technical support in order to meet our customers' needs.

For further details on the market and competition of the IT service and solution industry in Hong Kong, please refer to the section headed "Industry overview" in this [REDACTED].

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### LEGAL COMPLIANCE

As advised by our HK Legal Advisers, we have obtained the relevant approvals, permits, licences and certificates for conducting our businesses in Hong Kong and that, save as disclosed below, have complied with all the applicable Hong Kong laws, rules and regulations during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC Legal Advisers, save as disclosed below, we have obtained the relevant approvals, permits, licences and certificates for conducting our businesses in the PRC and our PRC Legal Advisers are not aware of any violation of the applicable PRC laws, rules and regulations by our Group during the Track Record Period and up to the Latest Practicable Date.

#### Non-compliance with the Predecessor Companies Ordinance and the Companies Ordinance

Name of our subsidiaries	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incident
ICO Holdings	<p>Non-compliance with section 122 of the Predecessor Companies Ordinance.</p> <p>Failure to lay the annual audited accounts before its shareholders at its annual general meeting for the financial year ended 31 March 2002, 31 March 2003, 31 March 2005, 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009, 31 March 2010, 31 March 2011 and 31 March 2012 (the "Holdings Non-Compliance Period")</p>	<p>The omissions were unintentional and due to inadvertence on the part of the secretarial service provider of ICO Holdings.</p>	<p>On 18 July 2013, the existing shareholders of ICO Holdings applied to the High Court of Hong Kong under Miscellaneous Proceedings no. 1751 of 2013 for an order to adopt the audited accounts for the Holdings Non-Compliance Period out of time.</p> <p>ICO Holdings obtained a sealed copy order on 5 August 2013 that the date to lay the audited accounts in the Holdings Non-Compliance Period be extended to the following dates:</p> <ul style="list-style-type: none"> <li>(a) Account for the financial year ended 31 March 2002 from 31 December 2002 to 31 December 2003;</li> <li>(b) Account for the financial year ended 31 March 2003 from 31 December 2003 to 31 December 2004;</li> <li>(c) Account for the financial year ended 31 March 2005 from 31 December 2005 to 31 December 2006;</li> <li>(d) Account for the financial year ended 31 March 2006 from 31 December 2006 to 31 December 2007;</li> <li>(e) Account for the financial year ended 31 March 2007 from 31 December 2007 to 31 December 2008;</li> <li>(f) Account for the financial year ended 31 March 2008 from 31 December 2008 to 31 December 2009;</li> <li>(g) Account for the financial year ended 31 March 2009 from 31 December 2009 to 8 April 2010;</li> <li>(h) Account for the financial year ended 31 March 2010 from 31 December 2010 to 17 May 2011;</li> <li>(i) Account for the financial year ended 31 March 2011 from 31 December 2011 to 22 March 2012;</li> <li>(j) Account for the financial year ended 31 March 2012 from 31 December 2012 to 20 March 2013.</li> </ul>	<p>For breach of section 122 of the Predecessor Companies Ordinance, the directors of ICO Holdings shall be liable to a maximum fine of HK\$300,000 and 12 months of imprisonment upon conviction.</p> <p>As advised by our HK Legal Advisers, the non-compliances of section 122 of the Predecessor Companies Ordinance by ICO Holdings were effectively and satisfactorily ratified and remedied. Accordingly, the potential liabilities to ICO Holdings and its directors were properly discharged.</p>	Mr. Yong, our executive Director

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Name of our subsidiaries	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incident
ICO Technology	<p>Non-compliance with section 122 and section 131 of the Predecessor Companies Ordinance.</p> <p>Failure to lay the annual audited accounts before its shareholders at its annual general meeting for the financial year ended 31 December 1996, 31 March 1997, 31 March 1998, 31 March 1999 and 31 March 2005 (the "ICOT Non-Compliance Period") and (ii) failure to appoint an auditor to hold office from the conclusion of the annual meeting for the year 1997 until the conclusion of the next annual general meeting.</p>	<p>The omissions were unintentional and due to inadvertence on the part of the secretarial service provider of ICO Technology.</p>	<p>On 18 July 2013, the existing shareholders of ICO Technology has applied to the High Court of Hong Kong under Miscellaneous Proceedings no. 1752 of 2013 for an order to adopt the audited accounts for the ICOT Non-Compliance Period out of time. ICO Technology obtained a sealed copy order on 5 August 2013 that the date to lay the audited accounts in the ICOT Non-Compliance Period be extended to the following dates:</p> <ul style="list-style-type: none"> <li>(a) Account for the financial year ended 31 December 1996 from 30 December 1997 to 26 September 1998;</li> <li>(b) Account for the financial year ended 31 March 1997 from 31 December 1997 to 26 September 2000;</li> <li>(c) Account for the financial year ended 31 March 1998 from 31 December 1998 to 26 September 2000;</li> <li>(d) Account for the financial year ended 31 March 1999 from 31 December 1999 to 26 September 2000;</li> <li>(e) Account for the financial year ended 31 March 2005 from 31 December 2005 to 31 November 2006.</li> </ul>	<p>Same as above</p> <p>As advised by our HK Legal Advisers, the non-compliance of section 122 and section 131 of the Predecessor Companies Ordinance by ICO Technology were effectively and satisfactorily ratified and remedied. Accordingly, the potential liabilities to ICO Technology and its directors were properly discharged.</p>	<p>Mr. Lee, our executive Director</p>

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Name of our subsidiaries	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incident
The Company	<p>Non-compliance with section 791(2)(b) of the Companies Ordinance.</p> <p>Late filing in relation to the appointment of the Directors in 2014</p>	<p>The omission was unintentional and due to inadvertence. During the material times, our Company has retained company secretarial service providers to assist with on-going compliance obligations and the Directors of our Company at the material time have entrusted and relied on them on the compliance issues.</p>	<p>Filing was made on 29 July 2014.</p>	<p>Maximum fine of HK\$25,000 and a daily default fine of HK\$700 for continued default. The aggregate maximum penalty for the aforesaid late filing is estimated to be approximately HK\$130,700.</p> <p>As at the Latest Practicable Date, there had not been any prosecution initiated against our Company, nor had it been subject to any fine relating to the above disclosed late filing. However, there is no assurance that the Companies Registry will not take action against our Company in the future in respect of this non-compliance which has not been time-barred. Our HK Legal Advisers are of the view that the non-compliance for this paragraph is minor in nature, and based on their experience, the Companies Registry does not, in all cases, prosecute late filings of a company and therefore unable to ascertain the range of fines normally imposed on such breach as prosecutions for breaches of such section are rare. In the event of prosecution, the possible penalty is monetary in nature and our Group is indemnified by our Controlling Shareholders pursuant to the Deed of Indemnity.</p>	<p>Mr. Yong, our executive Director, and Mr. Leung Kei Pui, our company secretary.</p>

In order to prevent recurrence of non-compliances of the Companies Ordinance in the future, our Group will adopt the following measures:

- (i) We will appoint the company secretary to take charge of the compliance matters with the Companies Ordinance for all Hong Kong companies within our Group in the future;
- (ii) The company secretary will prepare a memorandum to remind all the responsible staff that every private company in Hong Kong within our Group should lay the annual audited accounts before its shareholders at its annual general meeting, unless such company is falling within the reporting exemption under the Companies Ordinance; and

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- (iii) Audit Committee will be informed the past non-compliance incidents regarding the Companies Ordinance and to follow up implementation of internal control measures after the [REDACTED].

**Potential failure to file tax returns for individuals who are not employees**

Name of our subsidiaries	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum penalty	Director/senior management responsible for the non-compliance incident
ICO HK	<p>Failure to make employer's return IR56M and IR6036B in respect of payments to the following individuals other than an employee:</p> <p>(a) For year of assessment 2011/2012:</p> <p>(i) OTOTO for HK\$450,000 subcontract sum paid by ICO HK to OTOTO for services rendered by OTOTO for ICO HK under a subcontract relating to a project undertook by ICO HK;</p> <p>(ii) Chang Kwok Kee for HK\$67,200 subcontract sum paid by ICO HK to Chang Kwok Kee for services rendered by him to ICO HK under a subcontract relating to a profit undertook by ICO HK; and</p> <p>(iii) Ngai Man Lung trading as Martin NGAI Co. for HK\$472,130 service fee paid by ICO HK to Martin NGAI Co. for services rendered by him to ICO HK relating to a profit undertook by ICO HK.</p> <p>(b) For year of assessment 2009/2010:</p> <p>(i) OTOTO for HK\$672,750 subcontract sum paid by ICO HK to OTOTO for services rendered by OTOTO for ICO HK under a subcontract relating to a project undertook by ICO HK.</p>	<p>ICO HK considered the individuals to be independent contractors rendering services to ICO HK in various projects undertaken by ICO HK and the independent third party advisor appointed by ICO HK during the relevant periods did not advise ICO HK on the requirement for filing of the employer's return IR56M and IR6036B, therefore ICO HK was under the opinion that there was no obligation to file any return for the subcontract and service payments to them. Moreover, ICO HK did not receive any notice from an assessor of the IRD requesting the furnishing of an employer's return IR56M and IR6036B.</p>	<p>On 12 August 2013, ICO HK wrote to the IRD that they identified certain payments that might require an employer's return to be filed with the IRD, and submitted the relevant employer's returns IR56M and IR6036B together with the explanation and submission on the reason of the non-filing of the returns during their relevant years of assessment.</p> <p>On 31 October 2013, the IRD wrote to ICO HK confirming that the Commissioner of Inland Revenue does not intend to take any action under the Inland Revenue Ordinance against ICO HK.</p>	<p>Pursuant to section 80(1)(c) of the Inland Revenue Ordinance, any person who without reasonable excuse fails to comply with the requirements of sections 52(4), (6) or (7) commits an offence and is liable to conviction to a maximum fine of HK\$10,000 and the court may order the person convicted within a time specified in the order to do the act which he has failed to do.</p> <p>Pursuant to section 80(2)(a) of the Inland Revenue Ordinance, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required by the Inland Revenue Ordinance to make a return, either on his behalf or on behalf of another person, commits an offence and is liable to conviction to a maximum fine of HK\$10,000 and a further fine of treble the amount of tax which has been undercharged in consequence of such incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct.</p>	<p>Mr. Yong, our executive Director and Mr. Leung Kei Pui, our company secretary</p>

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The above table represented all transactions enrolling subcontract service payments during the Track Record Period. In order to prevent recurrence of tax non-compliances in Hong Kong in the future, our Group will adopt the following measures:

- (i) We will appoint Mr. Yong or the administration manager to assume the overall and general compliance duty in respect of consultancy fee payable to external consultants. In particular, he will keep full record of the consultancy agreements and be responsible for tax filing for individual consultants for each financial year;
- (ii) We will set up a control system within our administration/human resources department to record and report to the IRD for consultancy fees with annual amount over HK\$25,000 paid to individual consultants in accordance with the guideline on the form of IR6036C for completion of IR56M. Every month, the administration/human resources department will prepare a summary of cumulative consultancy fees paid, and submit to Mr. Yong or the administration manager for review. In April every year, the administration/human resources department will prepare a summary of total consultancy fees paid, draft IR56M and IR6036B forms and submit to Mr. Yong or the administration manager for his review and approval;
- (iii) We will inform the Audit Committee of the past tax non-compliance incidents and the Audit Committee, together with the company secretary, will follow up the tax filing matters and internal control procedures after the [REDACTED];
- (iv) We will arrange professional training to the Directors, executives and responsible staff in the administration/human resources department for the requirements of Inland Revenue Ordinance; and
- (v) Our Group will seek professional advices from tax consultant on various compliance matters.

The failure to make employer's return was mainly because of Mr. Yong's reliance on the advise provided by the independent third party. Mr. Yong is now fully aware of the duty to file the relevant employer's return in respect of subcontractors and he will continue to keep himself abreast of the Inland Revenue Ordinance. Further, we will engage a tax consultant to advice on our tax compliance. Based on these, our Directors are of the view that the appointment of Mr. Yong or the administration manager to assume the compliance duty would be an effective internal control measure in respect of consultancy fee payable to external consultants.

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**Non-registration of lease in the PRC**

During the Track Record Period and up to the Latest Practicable Date, the following leases of Tian Li Shi and Shenzhen Kai Gang were not registered with the relevant property leasing administration authority:

	Tenants	Location	Particulars of occupancy	Duration of the lease	Monthly rental fee	Size
Lease Agreement 1	Tian Li Shi	Flat A401-402, Block A, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	1 July 2011 to 30 June 2012	RMB29,336	336.70 square meters
Lease Agreement 2	Tian Li Shi	Flat A401-402, Block A, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	1 July 2012 to 30 June 2013	RMB31,170	336.70 square meters
Lease Agreement 3	Tian Li Shi	Flat A401-402, Block A, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	1 July 2013 to 30 June 2014	RMB33,003	336.70 square meters
Lease Agreement 4	Tian Li Shi	Flat A401-402, Block A, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen (the "Current Premises")	Office purposes	1 July 2014 to 30 June 2015	RMB33,003	336.70 square meters
Lease Agreement 5	Shenzhen Kai Gang	Flat A401, 4/F, Block A, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	26 June 2009 to 25 June 2011	RMB4,440	60.00 square meters
Lease Agreement 6	Shenzhen Kai Gang	Flat D710-711, 7/F, Block D, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	21 June 2011 to 30 June 2012	RMB33,079	413.49 square meters
Lease Agreement 7	Shenzhen Kai Gang	Flat D710-711, 7/F, Block D, Shenzhen Academy of Aerospace Technology No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	1 July 2012 to 30 June 2013	RMB35,147	413.49 square meters

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A summary of the non-compliance incidents relating to the non-registration of the leases is set out below:

Name of the subsidiary	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incident
Tian Li Shi	Certain leases of Tian Li Shi were not registered with the relevant property leasing administration authority.	Landlord's failure to co-operate with us to register the leases with the relevant property leasing administration authority.	<p>Regarding Lease Agreement 4, our Directors will continue to liaise with the landlord to arrange for registration. However, should the landlord continue to refuse to register the lease, we will look for another suitable office space for Tian Li Shi. If we identify a suitable location, we will re-locate Tian Li Shi to the new premises upon the expiry of Lease Agreement 4 on 30 June 2015.</p> <p>Lease Agreement 1, 2 and 3 had already expired as at the Latest Practicable Date. On 21 October 2013, our PRC Legal Advisers made an enquiry with the Nanshan District Housing Rental General Management Office (南山區出租屋綜合管理辦公室) (the "Office") and the Office confirmed that if the lease in question had expired, they would not take any action against the landlord/tenant in relation to the non-registration of such lease.</p>	<p>Pursuant to the Housing Lease Regulation of Shenzhen Special Economic Zone (深圳經濟特區房屋租賃條例), the parties who establish or alter any lease relationship are required to register or file the lease agreements with the district authorities within 10 days after entering into the lease agreements. If the non-registration of the lease agreement is due to the tenant's default, such tenant will be subject to a fine equivalent to 10% of the total rents agreed under the lease agreement.</p> <p>As advised by our PRC Legal Advisers, the validity of a lease agreement will not be affected due to the failure to register the lease agreement and the possible fines that may be imposed on us for the non-registration of Lease Agreement 1, 2, 3 and 4 are RMB35,203.20, RMB37,403.40, RMB39,603.60 and RMB39,603.60 respectively.</p>	Mr. Lee, our executive Director



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Name of the subsidiary	Non-compliance incidents	Cause of non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incident
Shenzhen Kai Gang	Certain leases of Shenzhen Kai Gang were not registered with the relevant property leasing administration authority.	Landlord's failure to co-operate with us to register the leases with the relevant property leasing administration authority.	Lease Agreement 5, 6 and 7 had already expired as at the Latest Practicable Date. On 21 October 2013, our PRC Legal Advisers made an enquiry with the Office and the Office confirmed that if the lease in question had expired, they would not take any action against the landlord/tenant in relation to the non-registration of such lease.	<p>Pursuant to the Housing Lease Regulation of Shenzhen Special Economic Zone (深圳經濟特區房屋租賃條例), the parties who establish or alter any lease relationship are required to register or file the lease agreements with the district authorities within 10 days after entering into the lease agreements. If the non-registration of the lease agreement is due to the tenant's default, such tenant will be subject to a fine equivalent to 10% of the total rents agreed under the lease agreement.</p> <p>As advised by our PRC Legal Advisers, the validity of a lease agreement will not be affected due to the failure to register the lease agreement and the possible fines that may be imposed on us for the non-registration of Lease Agreement 5, 6 and 7 are RMB10,656, RMB39,695.04 and RMB42,174.78 respectively.</p>	Mr. Lee, our executive Director

As advised by our Directors, as at the Latest Practicable Date, our Group has not received any notice demanding payment of the penalties as a result of the non-registration of the above lease agreements.

Given that (i) as of the Latest Practicable Date, no government authority or third party has imposed any penalty or made any claim against us with respect of the non-registration of the leases; (ii) the fact that the leases have not been registered does not have any adverse impact on the safety conditions of the Current Premises or the validity of the leases; and (iii) Tian Li Shi has no current business operation as at the Latest Practicable Date, our Group decided to renew the lease for the Current Premises for another year at the same rent and entered into by way of Lease Agreement 4 with the relevant landlord. Our Directors will continue to liaise with the landlord and persuade the landlord to arrange for registration of Lease Agreement 4.

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Given that the Current Premises is used by Tian Li Shi as office space and the total gross floor area is about 336.7 square metres only, our Directors consider that we are capable of relocating Tian Li Shi to other suitable location without any material difficulties. We consider that the whole relocation process, including identifying a new office space, entering into the relevant tenancy agreement, carrying out renovation work, removal from the Current Premises, and moving into the new location, shall take less than three months. Our Directors expect that the costs in relation to such relocation will not be substantial having regard to the size of the Current Premises.

Taking into account that (i) Tian Li Shi has no current business operation as at the Latest Practicable Date and thus the relocation will not lead to any interruptions to our operation, and (ii) the costs in relation to such relocation will not be substantial having regard to the size of the Current Premises, our Directors consider that such relocation will not have any material operational or financial impact on our Group.

Given that (i) our PRC Legal Advisers have confirmed with the relevant authority that no action will be taken against us as such leases had already expired; and (ii) Shenzhen Kai Gang was disposed of by our Group to an Independent Third Party on 1 April 2013 and ceased to be a member of our Group, our Directors believe that the non-registration of the expired leases will not have any material adverse impact on our Group.

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**Non-compliance with the tax law and regulations of the PRC**

Tian Li Shi and Shenzhen Kai Gang have failed to apply for tax registration and pay for certain tax within the time limit prescribed by the Law of the PRC Concerning the Administration of Tax Collection (中華人民共和國稅收徵收管理法) (the "Tax Collection Law") during the Track Record Period. We set out below a summary of the non-compliance incidents:

Name of our subsidiaries	Non-compliance incidents	Cause of the non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incidents
Tian Li Shi	Tian Li Shi has failed to apply for tax registration for a shortfall of RMB98,507.96 for the period from April 2011 to March 2012 and pay such tax within the time limit prescribed by the Tax Collection Law.	The occurrence of the non-compliance was primarily due to the oversight of the director of Tian Li Shi and was not discovered until when the Company's reporting accountants and legal advisers as to PRC laws were engaged in preparation for the [REDACTED]. During the material times, Tian Li Shi has retained company secretarial service providers to assist with on-going compliance obligations and the directors of Tian Li Shi at the material time have entrusted and relied on them on the compliance issues.	Tian Li Shi filed the tax registration with the local tax bureau in September and November 2013. On 26 September 2013, Tian Li Shi was ordered by the Shenzhen Luohu Local Taxation Bureau (深圳市羅湖區地方稅務局) to pay (i) a fine of RMB945 due to its failure to apply for tax registration; and (ii) a surcharge of 29,165.28 for the period from April 2011 to March 2012. On 25 November 2013, Tian Li Shi was ordered by the Shenzhen Nanshan Local Taxation Bureau (深圳市南山區地方稅務局) to pay a surcharge of RMB2,659.82 for the period from April 2011 to March 2012.  As advised by our PRC Legal Advisers, Tian Li Shi has paid up the required fine and surcharge in September and November 2013.  Such non-compliance incidents will not result in other civil, criminal and administrative liabilities on the part of our Group.	Pursuant to the Tax Collection Law, where the taxpayer fails to apply for tax registration or for change or cancellation of tax registration within the prescribed time limit, he shall be ordered by the tax authorities to rectify within a time limit and may be fined not more than RMB2,000; if the circumstances are serious, he may be fined not less than RMB2,000 but not more than RMB10,000.  Further, where a taxpayer fails to pay tax or a withholding agent fails to remit tax within the specified time limit, the tax authorities shall, in addition to ordering the taxpayer or withholding agent to pay or remit the tax within a fixed period of time, impose a surcharge on a daily basis at the rate of 0.05% of the amount of tax in arrears, from the date the tax payment is defaulted.	Mr. Lee, our executive Director

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Name of our subsidiaries	Non-compliance incidents	Cause of the non-compliance	Remedial actions	Legal consequences and maximum potential penalty	Director/senior management responsible for the non-compliance incidents
Shenzhen Kai Gang	Failure to apply for tax registration for a shortfall of RMB114,757.6 for the period from April 2011 to March 2012 and pay such tax within the time limit prescribed by the Tax Collection Law.	The occurrence of the non-compliance was primarily due to the oversight of the director of Shenzhen Kai Gang was not discovered until when the Company's reporting accountants and legal advisers as to PRC laws were engaged in preparation for the [REDACTED]. During the material times, Shenzhen Kai Gang has retained company secretarial service providers to assist with on-going compliance obligations and the directors of Shenzhen Kai Gang at the material time have entrusted and relied on them on the compliance issues.	Shenzhen Kai Gang filed the tax registration with the local tax bureau in September 2013. On 26 September 2013, Shenzhen Kai Gang was ordered by the Shenzhen Luohu Local Taxation Bureau (深圳市羅湖區地方稅務局) to pay (i) a fine of RMB945 due to its failure to apply for tax registration; and (ii) a surcharge of 37,039.49 for the period from April 2011 to March 2012.  As advised by our PRC Legal Advisers, Shenzhen Kai Gang has paid up the required fine and surcharge in September 2013. Such non-compliance incidents will not result in other civil, criminal and administrative liabilities on the part of our Group.	Same as above	Mr. Lee, our executive Director

As Shenzhen Kai Gang was disposed of by our Group to an Independent Third Party on 1 April 2013 and ceased to be a member of our Group, PRC legal advisers are of the view that its failure to comply with the tax law and regulations of the PRC will not have any material adverse impact on our Group.

In order to prevent recurrence of tax non-compliances in the PRC in the future, our Group will adopt the following measures:

- (i) We will assign a staff from the accounting department to deal with the PRC tax consulting firm for tax compliance, renewal of tax registration and tax filing every year; and
- (ii) We will maintain a compliance checklist with all tax registration renewal and filing deadlines of all the PRC subsidiaries of our Group and make sure all the dates are properly complied. This responsible staff from the accounting department will report to the company secretary, who undertakes the general compliance duty and tax compliance matters, on a monthly basis for any deviation from the checklist. the company secretary will report to the Directors should any issue arisen.

The Controlling Shareholders have executed the Deed of Indemnity, whereby the Controlling Shareholders have agreed to give indemnities to our Group, subject to the terms and conditions of the Deed of Indemnity, in relation to any liabilities which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations on or before the date on which the [REDACTED] becomes unconditional. For further details, please refer to the paragraph headed "Other information" in Appendix IV of this [REDACTED].

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### Measures Designed to Prevent Future Non-Compliance and Improve Corporate Governance

In order to safeguard the interests of the Shareholders and to prevent recurrence of non-compliances in the future, our Group has adopted or will adopt the following measures to strengthen our corporate governance practice:

- (i) Our Group appointed an independent internal control consultant (the "Internal Control Consultant"), Lau & Au Yeung C.P.A. Ltd to perform a review on our Group's internal control procedures and policies in April and May 2013 and subsequent review in October 2013. The scope of work of the Internal Control Consultant include discussion with our key management and review on key internal control relating to corporate governance practices, connected transaction and compliance to listing rules and other regulations, internal control measures on treasury management, financial reporting, and operating cycles, namely: revenue and cost cycle, human resource cycle, capital expenditure cycle, intellectual property and information technology. The Internal Control Consultant has been appointed as an internal control consultant by a number of listed companies. The engagement director of the Internal Control Consultant is a fellow member of the Institute of Chartered Accountants in England and Wales (ICAEW), a fellow practicing member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA). He is also the Chairman of Council of the Institute of Financial Accountants Hong Kong Branch. The Internal Control Consultant has made certain recommendations including compiling and adopting a comprehensive staff handbook, internal control manual and compliance manual in relation to the internal control practices and procedures of our Group, details of which are set out in the paragraph headed "Internal control" of this section. According to the result of the follow up subsequent review by the Internal Control Consultant in October 2013, our Group had implemented measures and ratified deficiencies as recommended by the Internal Control Consultant. In view of our Group's response to the recommendation and the implementation of the internal control measures in respect to our Group's non-compliance incidents, the Internal Control Consultant considered our Group's enhanced internal control measures are adequate and effective to prevent any future breaches in order to ensure that our Group's business would operate in a law abiding manner;
- (ii) Each of our Directors has attended a training session and received a detailed memorandum prepared by the HK Legal Advisers of our Company setting out the responsibilities and duties of Directors and senior management;
- (iii) We have appointed Mr. Leung Kei Pui as our company secretary of our Group to advise on and carry out our Group's company secretarial works regarding certain compliance matters including, without limitation, requirements under the GEM Listing Rules, the Companies Ordinance and other applicable legal and regulatory requirements. He will be in charge of the administration of the daily secretarial works of our Group, including keeping company records up-to-date to ensure ongoing compliance. Our company secretary, together with our Company's compliance officer will act as the principal channel of communication between members of our Group and our Company in relation to compliance matters of our Group. Upon receipt of any queries or reports on compliance matters, our company secretary or the

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compliance officer will look into the matter and, if appropriate, seek advice, guidance and recommendation from external professional advisers and report to the Audit Committee (see (iv) below);

- (iv) An Audit Committee which comprises three independent non-executive Directors has been established to review the financial reporting and auditing function, corporate governance and internal control procedures. Please refer to the section headed "Directors, senior management and staff" of this [REDACTED] for details of their experience;
- (v) Our Group will prepare tax and the Companies Ordinance checklists to ensure comply with all the law and regulations and such checklists will be reviewed by the company secretary and the compliance officer of our Company;
- (vi) Our Group will set up an internal audit department after the [REDACTED], to review and advise on the compliance matters of our Group, including the compliance of tax filing, lease registration in the PRC and the Companies Ordinance. We will conduct annual review on the effectiveness of our internal control system and the findings of such annual review will be submitted to the Audit Committee for consideration;
- (vii) We will appoint external professional advisers, including auditors, legal advisers, internal control consultant or other advisers to render professional advice or training as to compliance with the statutory requirements as applicable to our Group from time to time;
- (viii) Our Group would seek external legal advice on the relevant PRC laws and regulations to prevent any recurrence of any similar non-compliance events;
- (ix) We will also appoint a compliance adviser to provide advice to our Directors and management team on matters relating to the Listing Rules; and
- (x) We will provide our Directors, senior management and employees with regular training courses to keep abreast of any development in legal and regulatory requirements applicable to our business operations or relevant to our responsibilities and duties as [REDACTED] company.

Our Directors confirm that save as disclosed above, as at the Latest Practicable Date, our Group had complied with all applicable laws and regulations in the jurisdictions in which it operates and had obtained all the necessary permits, certificates and licences for its operation since the commencement of the Track Record Period.

Our Directors are of the view that the aforesaid remedial measures and the enhanced internal control measures are adequate and effective in preventing similar non-compliance incidents from re-occurring in the future. In fact, no other similar non-compliance incidents had occurred up to the Latest Practicable Date.

The Sponsor has considered the internal control system of our Company and the remedial actions taken by our Group are adequate to prevent future recurrence of similar non-compliance incidents. The Sponsor is of the view that (i) our Directors have taken appropriate steps and measures to rectify and avoid the previous non-compliance matters; (ii) such matters would not have any material adverse

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impact on our Group going forward; and (iii) the additional measures adopted by our Group, including but not limited to forming audit committee and the experience of members of the audit committee and engaging external professional advisers, are effective to ensure our Group's compliance with the relevant rules and regulations.

Having considered that (i) the non-compliance incidents with the Predecessor Companies Ordinance during the Track Record Period were merely inadvertent and were not wilful as the occurrence of such non-compliance incidents were mainly due to the reliance on external company secretarial service providers, which our Directors believed to have relevant qualification and experience for compliance with the relevant laws, rules and regulations; (ii) the non-compliance incidents did not involve any fraudulency or dishonesty on the part of our Directors or impugn on their integrity or competence; (iii) upon noticing the non-compliance incidents, our Directors fulfilled their fiduciary duties and conducted remedial actions to rectify the incidents; (iv) in order to safeguard the interests of the Shareholders and to prevent recurrence of non-compliance incidents in the future, our Directors have implemented adequate internal control measures to strengthen the corporate governance practice as disclosed; (v) each of our Controlling Shareholders has agreed to indemnify in relation to any liabilities which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations on or before [REDACTED]; and (vi) as advised by the HK Legal Advisers of our Company, the potential liabilities of our Company and our Directors have been properly discharged, the Sponsor is satisfied that our Directors have the standard of competence commensurate with their positions as directors of a [REDACTED] issuer under the GEM Listing Rules 5.01 and 5.02.

### **LITIGATION**

As of the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to us to be pending or threatened against any member of our Group.

### **INSURANCE**

We maintain office insurance for our Hong Kong office covering loss or damage to office contents and stock as well as business interruption. We maintain employees' compensation insurance for our employees that includes work injury under the regulatory requirements in Hong Kong and individual medical insurance for all of our employees in Hong Kong.

We also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

Some projects undertaken by us are protected by contractors' all risks insurance which, depending on the terms of the relevant contracts, are taken out either by the main contractors (in the case of us being a subcontractor) or us.

For each of the three years ended 31 March 2012, 2013 and 2014, our insurance expenses were approximately HK\$236,000, HK\$302,000 and HK\$313,000 respectively. Our insurance expenses was approximately HK\$206,000 for the six months ended 30 September 2014.

## **BUSINESS**

We consider our insurance policies to be adequate and in line with the industry norms. During the Track Record Period, there has been no material insurance claim by our employees in Hong Kong. We had not made any material claims on insurance or received any material third party liability claim during the Track Record Period and up to the Latest Practicable Date.

### **WORK SAFETY**

Our Directors confirm that there were no material accidents, work injuries claims for personal or property damages, compensation to staff or any relevant non-compliance incidents with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### **RESEARCH AND DEVELOPMENT**

We currently do not have a research and development team and we intend to set up such a team to improve our products and services. Please refer to the paragraph headed "Our business strategic" under the section headed "Business" in this [REDACTED] for details.

### **INTELLECTUAL PROPERTY**

The ownership of the intellectual property rights attached to the developed products is normally entitled to the customer.

#### **Trademarks**

As at the Latest Practicable Date, our Group had registered several trademarks in Hong Kong. For details, please refer to paragraph headed "Intellectual property rights" in Appendix IV to this [REDACTED].

#### **Domain name**

As at the Latest Practicable Date, we had registered one domain name. Details in relation to the domain name is set out in the paragraph headed "Intellectual property rights" in Appendix IV to this [REDACTED].

As at the Latest Practicable Date, we were not aware of any infringement (i) by us of any intellectual property rights owned by any third party; or (ii) by any third party of any intellectual property rights owned by us. During the Track Record Period and as at the Latest Practicable Date, there had not been any pending or threatened claims against us, nor had any claims been made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.



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**LEASED PROPERTY**

Our Group leased two properties in Hong Kong and one property in the PRC as office premises from Independent Third Parties. Set out below is a summary of our leased premises as at the Latest Practicable Date:

Tenants	Location	Particulars of occupancy	Duration of lease	Monthly rental fee	Gross size (approximately)
ICO HK	30/F, Siu On Centre, 188 Lockhart Road, Hong Kong	Office purposes	1 April 2013 to 31 March 2015 <i>(Note)</i>	HK\$130,676	433.6 square metres
ICO HK	Room 102, 1/F, Chung Nam Building, No. 1 Lockhart Road, Wanchai, Hong Kong	Office purposes	1 December 2014 to 30 November 2016	HK\$76,350	283.7 square metres
Tian Li Shi	Room A401-402, 4/F, Block A, Shenzhen Academy of Aerospace Technology, No. 6 Ke Ji Nan Shi Road, Hi-Tech Park, Nanshan District, Shenzhen	Office purposes	1 July 2014 to 30 June 2015	RMB33,003	366.7 square metres

*Note:* A summary of proposed lease dated 15 February 2015 was issued by Siu On Real Estate Agency Limited, proposing to ICO HK to renew the tenancy over the property for a term of two years from 1 April 2015 to 31 March 2017 at a monthly rental fee of HK\$163,345.

We were using the above leased premises in accordance with the purposes stated in the respective tenancy agreement. During the Track Record Period and as at the Latest Practicable Date, the lease of Tian Li Shi was not registered with the relevant property leasing administration authority. Please refer to the subsection headed "Legal compliance" under the section "Business" of the [REDACTED].