

BUSINESS

OVERVIEW

The Group is principally engaged in (i) the provision of structural engineering works with a focus on design and build projects in Hong Kong; and (ii) trading of building material products predominately in Hong Kong.

During the Track Record Period, the Group’s revenue is mainly derived from the structural engineering works while the remaining were generated from trading of building material products. The following table sets out a breakdown of the Group’s revenue during the Track Record Period by business segments:

	For the year ended 31 March			
	2014		2015	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Structural engineering works	199,542	97.2	183,913	93.2
Trading of building material products	<u>5,743</u>	<u>2.8</u>	<u>13,522</u>	<u>6.8</u>
	<u><u>205,285</u></u>	<u><u>100.0</u></u>	<u><u>197,435</u></u>	<u><u>100.0</u></u>

During the Track Record Period, the majority of the Group’s revenue was derived in Hong Kong. The following table sets out a breakdown of the Group’s revenue during the Track Record Period by geographical locations:

	For the year ended 31 March			
	2014		2015	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Hong Kong	204,640	99.7	196,530	99.5
Others (<i>Note</i>)	<u>645</u>	<u>0.3</u>	<u>905</u>	<u>0.5</u>
	<u><u>205,285</u></u>	<u><u>100.0</u></u>	<u><u>197,435</u></u>	<u><u>100.0</u></u>

Note: Others denote the Group’s revenue derived from trading of building material products to locations other than Hong Kong such as the PRC, Macau, Singapore and the United Kingdom.

(i) Structural engineering works

Structural engineering is concerned with the analysis, design and construction of a structure. The structural engineering works undertaken by the Group mainly include developing structural designs, calculation and drawings, sourcing and procurement of materials, monitoring of works, supervision and management of subcontractors and after-sales services. During the Track Record Period, the Group was mainly engaged in design and build projects in Hong Kong as a subcontractor. The design and build projects undertaken by the Group can be broadly divided into three categories: (i) facade, roof and related works; (ii) structural steelwork and noise barriers; and (iii) flagpoles and related works. KPa Engineering, a member of the Group, is an approved specialist contractor in the category of structural steelwork and an approved supplier of materials in the category of transparent panels for noise barriers on highways with the Development Bureau. It is also a registered minor works contractor with the

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Buildings Department. The Group provides structural engineering works in design and build projects to both the private sector and public sector. The Group classifies public sector contracts as contracts in which the ultimate employer is a government department or statutory body. During the Track Record Period, the Group generated approximately 61.1% and 33.5% of its revenue from design and build projects in the private sector, respectively, with the remaining revenue of approximately 38.9% and 66.5% from design and build projects in the public sector, respectively.

The duration of the Group’s design and build projects completed during the Track Record Period varied from less than one month to approximately 54 months, depending on the size of the contract and the complexity of the works undertaken pursuant to the contract. For each year of the Track Record Period, the Group undertook 204 and 298 design and build projects, contributing approximately HK\$199.5 million and HK\$183.9 million to the Group’s revenue respectively. Set out below is a breakdown of the Group’s revenue attributable to the design and build projects during the Track Record Period by categories:

	For the year ended 31 March			
	2014		2015	
	HK\$'000	%	HK\$'000	%
Facade, roof and related works	169,928	85.1	144,736	78.7
Structural steelwork and noise barriers	27,863	14.0	33,273	18.1
Flagpoles and related works	1,751	0.9	5,904	3.2
	199,542	100.0	183,913	100.0

Note: A design and build project may cover works in one or more of the above work categories. The classification depends on the nature of works the Group principally undertakes in such project, and major revenue contributing in the project.

Set out below is the breakdown of the Group’s design and build projects based on their scales of respective revenue recognised during the Track Record Period:

	For the year ended 31 March	
	2014	2015
	Number of projects	Number of projects
Revenue		
HK\$10,000,000 or above	6	3
HK\$5,000,000 to below HK\$10,000,000	4	5
HK\$1,000,000 to below HK\$5,000,000	11	12
Below HK\$1,000,000	183	278
	204	298

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As at 31 March 2015, the Group had 102 design and build projects in progress (including projects that have commenced but not yet completed and projects that have been awarded to the Group but not yet commenced) with an aggregate contract sum of approximately HK\$742.1 million, of which approximately HK\$253.9 million is expected to be recognised as the Group’s revenue for the year ending 31 March 2016. For details on the Group’s latest development, please refer to the paragraph headed “Recent development subsequent to the Track Record Period” in the section headed “Summary” to this [REDACTED].

(ii) Trading of building material products

The Group is also engaged in the trading of building material products mainly through BuildMax (HK), a member of the Group, predominately in Hong Kong. For each of the Track Record Period, the Group’s revenue generated by trading of building materials products amounted to approximately HK\$5.7 million and HK\$13.5 million respectively. The building material products sold by the Group mainly include (i) roof and noise barrier materials; (ii) curtain wall fixing components; and (iii) other auxiliary materials. The Group does not provide installation service to its customers under this trading segment.

As at the Latest Practicable Date, the Group is currently the authorised distributor of six international brands of building material products in Hong Kong, Macau and/or the PRC. Among these six international brand products, four of which the Group has been engaged as the sole distributor of the products in Hong Kong, Macau and/or the PRC exclusively. These international brand products are mainly imported from various countries such as Germany, the United Kingdom and USA. Apart from selling products of third party brands, the Group also sells a small portion of building material products under its own brand names. Please refer to the paragraph headed “Trading of building material products” under the subsection headed “Services and products” in this section for further details.

MARKET AND COMPETITION

According to the IPSOS Report, the facade market is driven by architects who produce designs which demand new production and material technologies. It is expected that there will be an increasing demand for high performance energy efficient facade systems. The growth of the structural steelworks industry will be mainly driven by ongoing public investment in infrastructure, but at the same time challenged by shortage in labour and increase in wage. Tighter regulation for noise pollution and new infrastructure development will increase the demand for noise barriers.

The facade works industry and the structural steelworks industry in Hong Kong are relatively consolidated markets with major players dominating the industry while the noise barrier works industry in Hong Kong is relatively concentrated with a small number of major players dominating the industry. According to the IPSOS Report, KPa Engineering is one of the top players of the facade and roof works sector in Hong Kong. For further information regarding the competitive landscape of the industry in which the Group operates, please refer to the section headed “Industry overview” to this [REDACTED].

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COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to the Group’s continued success and potential for growth:

Tailor-made structural designs provided by in-house experienced design and technical teams

The Group provides tailor-made structural design according to the specific needs of and requirements of its customers for each project. The Group has a design team in Hong Kong, which takes the lead in managing the structural design work for the projects and allocating certain shop drawing work to the design team in its Shenzhen office.

The Group’s in-house designers have extensive experience in the design of (i) structural steelwork and noise barriers; and (ii) facade, roof and other works. Combined with their understanding and knowledge of building materials industry, they are able to provide tailor-made design for the Group’s customers to fulfill their requests. The Group’s technical team consists of experienced engineering technicians who have extensive and relevant technical knowledge and exposure of various construction projects, these technicians work closely with the designers to deliver feasible tailor-made design that satisfies the customers’ particular requirements. The Directors believe that having the in-house design and technical teams enables the Group to have a high level of control in ensuring the quality and consistency of the design and the works completed for each project.

Based on the above, the Directors consider that the Group’s in-house design and technical teams play a pivotal role in each design and build project of the Group and the tailor-made designing service helps the Group stand out from its competitors within the industry.

For further details of the biographies and relevant industry experience of the management team, please refer to the section headed “Directors and senior management” to this [REDACTED].

One-stop solution provider of services ranging from design, sourcing, implementation and after-sales services

The Group provides one-stop solution for its customers’ design and build projects. The Group offers a wide range of services ranging from developing structural designs, calculation and drawings, sourcing and procurement of materials, monitoring of works, supervision and management of subcontractors to after-sales services.

In each design and build project, the Group will assign a project manager to take charge for the quality and progress of the project. In order to maintain the high quality of work for each project, the Group has established effective operation procedures to allocate the different stages of the workflow to the corresponding team within the Group. As mentioned above, the Group’s in-house design and technical team will be responsible for a feasible tailor-made structural design. The Group’s draftsmen (referring to the Group’s staff members who are responsible for preparing drawings by making use of computer software) will then prepare the technical drawings. When the design is approved by the project architect, the Group will start to source suitable building materials and collect quotations from its suppliers and subcontractors, followed by the assembly of the chosen materials. Upon the arrival of materials at the project site, the Group’s project

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management team and site personnel will supervise the works at the site and instruct the subcontractor to complete the execution of the installation process. From the completion date of the project, the Group and its material suppliers may provide a warranty of normally up to ten years to its customers and the Group would provide a defect liability period of normally one year after completion of the project during which the Group will be liable to making good any defects of its works which are discovered within such defect liability period.

The Directors believe that being a one-stop solution provider allows the Group to minimise any significant deviation from the original design and provide its customers with a higher convenience with less time and financial cost in searching for and engaging different parties to provide the different types of services at each stage of a project. In addition, it is easier for the Group to ensure the quality of work and to manage the timeline of each project.

Quality products and services provided in a cost-effective manner

With the main objective of the Group being maximisation of Shareholders’ equity value, the Group has adopted several ways to control the costs of each design and build project to maintain the profit margin of the Group for each project. The Group has in-house structural engineering technicians who are able to conduct feasibility studies at the early stage of each project with regard to the construction design and provide cost-effective options for implementation of its design and build projects. In addition, the Group’s project managers are responsible for monitoring the budget plan and actual financial information of each project in order to prevent cost overruns.

In order to control the quality of the Group’s products and services, the Group will only select suppliers and subcontractors on its internal approved list of suppliers and subcontractors. In assessing whether to include a subcontractor in the Group’s internal approved list, the Group will rely on referrals by other parties in the industry, request for past job references completed by such subcontractors in order to ascertain the quality of their products, the subcontractors’ capabilities and work quality and will also take into consideration the prices quoted by the subcontractors. The Group has adopted a policy to require its subcontractor which is engaged by the Group for the first time to submit a series of documents for the Group to assess whether it is suitable to be on the internal list of approved subcontractors. Such required documents generally include business registration, relevant licences (if required) to carry out the corresponding types of work, job references and financial statements. As at the Latest Practicable Date, the Group has more than 50 subcontractors on its internal list of approved subcontractors, which offers a wide-range of choices for the Group to acquire direct labour who has proven track record at a competitive price.

Well-established business relationship with renowned international building material suppliers

As at the Latest Practicable Date, the Group is currently the authorised distributor of six international brands of building material products in Hong Kong, Macau and/or the PRC. Among these six international brand products, four of which were sold and distributed by the Group exclusively.

The Group has maintained stable business relationship with its major building material products suppliers and the longest relationship that the Group has with its major building material products suppliers is over 15 years. Over the years, the Directors believe that the Group has

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fostered a trustworthy and reliable business relationship with its major building material product suppliers upon its proven track record, industry and product know-how. The Directors consider that its established business relationship with its major building material product suppliers can ensure the stable and timely supply of building materials and products, which is crucial to the future development and business expansion of the Group.

The Group’s management team possesses extensive experience and technical know-how

The Group’s management team has extensive industry and managerial knowledge, skill and technical know-how throughout the industry. Each of the executive Directors, Mr. Yip, Mr. Wai and Mr. Lui, has more than 20 years of experience respectively in Hong Kong construction industry. For further details of the biographies and relevant industry experience of the management team, please refer to the section headed “Directors and senior management” to this [REDACTED].

Other than the Group’s management team, the Group has also employed a stable pool of skilled employees who has been with the Group for more than 10 years. The Directors believe that the extensive experience and technical know-how of the management team as well as the skilled employees are essential to the Group’s success and further development.

BUSINESS STRATEGIES

The Group’s goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the design and build business in Hong Kong. To achieve this, the Directors plan to continue to capture more opportunities by leveraging on the Group’s competitive strengths and experience and implement the following strategies:

Further expanding the Group’s capacity to capture more business opportunities

The Directors believe that the Group’s ability to secure contracts primarily depends on the available working capital, the Group’s capacity, experience and track records. KPa Engineering, a member of the Group, is an approved specialist contractor in the category of structural steelwork and an approved supplier of materials in the category of transparent panels for noise barriers on highways with the Development Bureau. For retention as an approved specialist contractor, the Group is required to maintain certain minimum levels of employed and working capital and annual turnover applicable to the appropriate category and group. Please refer to the paragraph headed “Development Bureau projects” under the section headed “Regulatory overview” for further details. The Directors believe that the net proceeds from the [REDACTED] will strengthen the Group’s available financial resources, which allows the Group to undertake more projects of larger scale that demand higher working capital requirements.

Further, the Group plans to capture more business opportunities by expanding its capacity and scale. All the Group’s projects require the involvement of the senior management team at various stages, such as assessment of potential projects, preparation and submission of tenders, project planning and administration, project implementation and quality control. While the senior management team plays an important role in different stages of a project, the Group’s capacity to take up and execute projects is largely determined by the capacity of the Group’s senior management team. The Group intends to recruit additional experienced and skilled candidates so as to enhance the Group’s capacity to undertake more projects for its structural engineering works.

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The Group will continue to leverage its experience in the industry in order to explore the business opportunities so as to solidify its market position in the industry and expand its market share in Hong Kong.

Further development of the Group’s structural engineering business

In deciding whether to undertake a project, the Group would consider, among other things, the amount of available working capital and requirements for projects in progress. There are often time lags between making payments to the Group’s suppliers and subcontractors and receiving payments from the Group’s customers.

In addition, some design and build projects may require the subcontractors like the Group, to take out surety bonds which usually amount to 10.0% of the contract sum. The Group had provided surety bonds to its customers in a number of design and build projects during the Track Record Period. The Group intends to utilise a portion of the net proceeds from the [REDACTED] to satisfy the amount of bank deposits necessary for the issue of surety bonds for future contracts, thereby allowing the Group to undertake projects of larger contract value. The Group believes that by expanding its capacity and scale, the Group will be able to undertake projects of more sizeable scale and broaden its customer base by meeting the pre-qualifications of tenderers prescribed by potential customers.

Enhancing the Group’s design and customisation capabilities

The Directors believe that the tailor-made structural design capacity is one of the Group’s competitive strengths. In this connection, the Group will continue to recruit experienced designers and draftsmen to further enhance the Group’s design and customisation capabilities as well as to improve its industrial techniques and increase service quality. In addition, the Group will continue to sponsor its designers and other relevant staff to attend technical seminars and occupational health and safety courses so as to improve their expertise and industry know-how.

For further details on the implementation of the abovementioned business strategy, please refer to the section headed “Statement of business objectives and use of proceeds” in this [REDACTED].

SERVICES AND PRODUCTS

The Group is principally engaged in (i) the provision of structural engineering works with a focus on design and build projects in Hong Kong; and (ii) trading of building material products predominately in Hong Kong.

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During the Track Record Period, the Group’s revenue is mainly derived from the structural engineering works while the remaining were generated from trading of building material products. The following table sets out a breakdown of the Group’s revenue during the Track Record Period by business segments:

	For the year ended 31 March			
	2014		2015	
	HK\$'000	%	HK\$'000	%
Structural engineering works	199,542	97.2	183,913	93.2
Trading of building material products	5,743	2.8	13,522	6.8
	205,285	100.0	197,435	100.0

Structural engineering works

During the Track Record Period, the Group was mainly engaged in design and build projects in Hong Kong as a subcontractor. The structural engineering works undertaken by the Group mainly include developing structural designs, calculation and drawings, procurement of materials, monitoring of works, supervision and management of subcontractors and after-sales services. The Group provides its customers with a one-stop solution that are customised to meet the technical specifications and aesthetic requirements of the design and build projects. During the Track Record Period, the design and build projects undertaken by the Group can be broadly divided into three categories: (i) facade, roof and related works; (ii) structural steelwork and noise barriers; and (iii) flagpoles and related works.

The following table sets out a breakdown of the Group’s revenue attributable to the design and build projects during the Track Record Period by categories:

	For the year ended 31 March			
	2014		2015	
	HK\$'000	%	HK\$'000	%
Facade, roof and related works	169,928	85.1	144,736	78.7
Structural steelwork and noise barriers	27,863	14.0	33,273	18.1
Flagpoles and related works	1,751	0.9	5,904	3.2
	199,542	100.0	183,913	100.0

Note: A design and build project may cover works in one or more of the above work categories. The classification depends on the nature of works the Group principally undertakes in such project, and major revenue contributing in the project.

Facade, roof and related works

Facade is generally installed on the podium or atrium portion of a building and made up of a combination of different materials, such as glass, granite and other cladding materials. Facade can be supported by aluminium frames and other structural materials that are attached onto the concrete

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structure of the building. Roof is an upper exterior surface of a building and the most commonly used materials for roof claddings are steel and aluminum. The facade and/or roof projects undertaken by the Group through KPa Engineering mainly involve developing structural designs, calculation and drawings, procurement of materials, monitoring of works, supervision and management of subcontractors and after-sales services.

Related works under this sub-category generally refers to the supply and installation of roof materials, such as sandwich panels and trapezoidal roofing sheets, which generally does not involve any structural calculation and are less complex compared to the facade and roof projects, will be carried out by BuildMax (HK).

Structural steelwork and noise barriers

Structural steelworks include various steel materials used in the construction of structures and these steel materials are connected with each other through welding and bolting joints. Structural steelworks are widely used in cladding, balustrades, staircases, bridges, high-rise buildings and structural frames of public utilities such as walkways and noise barriers. Structural engineering works in the structural steelworks industry include the planning and design of structures using steel, fabrication of steel as well as installation of the structural steel on-site.

Noise barrier works include the design and installation of noise barrier systems. The primary function of noise barriers are to shield receivers from excessive noise generated by road traffic. Noise barriers typically comprise main structural steel frame, steel sub-frame, noise barrier panels, acoustical gasket profiles, acoustic sealing, fasteners, and any other accessories necessary for the completion of the entire noise barrier. Based on the materials used in the noise barrier panel, the noise barriers can be broadly classified into two categories, namely (i) sound reflective type; and (ii) sound absorptive type. Sound reflective type is normally made up of glass or acrylic sheets with aluminum frame whereas the sound absorptive type is made up of rock wool with perforated aluminum sheet.

For structural steelwork and noise barrier works in public sectors, the Group is required to have specific licences, permits and qualifications such as being on a certain list of approved suppliers of materials and specialist contractors for public works. Please refer to the paragraph headed “Licences and permits” below.

Flagpoles and related works

Flagpoles are poles for the displaying of flags or banners made from aluminum. Aluminum flagpoles contain raw materials such as aluminum and the flag display wires and attachments and are mainly used for the display of flags and banners outside various buildings including public buildings, museums, embassies, hotels, schools and shopping malls. The materials used in the flagpole project are generally sourced and provided by the Group under the brand name of “BM-POLES”. BM-POLES provides a wide range of flagpoles, banner poles and decorative poles made of aluminum and stainless steel. The Group is able to provide different size of flagpole in accordance with the customers’ specifications. Please refer to the paragraph headed “Intellectual property rights of the Group” as set out in Appendix V to this [REDACTED]. Related works under this sub-category generally refer to the supply and installation of fall arrest system. In general, the Group is responsible for preparing the shop

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drawings, procurement of materials, monitoring of works, arrangement for the necessary labour to execute the projects and providing after-sales services. Flagpoles and related works generally do not involve may structural calculation and are carried out by BuildMax (HK).

Projects awarded during the Track Record Period

For each of the Track Record Period, the Group had been awarded 146 and 242 design and build projects respectively. The following table sets out the number of projects awarded during the Track Record Period by categories:

	For the year ended 31 March	
	2014	2015
	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>
Facade, roof and related works	85	129
Structural steelwork and noise barriers	4	3
Flagpoles and related works	57	110
	146	242

Projects completed during the Track Record Period

For each of the Track Record Period, the Group completed 157 and 189 projects respectively. Set out below is a summary of the completed projects during the Track Record Period by categories:

	For the year ended 31 March			
	2014		2015	
	<i>Number of completed projects</i>	<i>Range of project period (months)</i>	<i>Number of completed projects</i>	<i>Range of project period (months)</i>
Facade, roof and related works	130	from less than 1 to 54	94	from less than 1 to 7
Structural steelwork and noise barriers	1	26	2	15 to 26
Flagpoles and related works	26	from less than 1 to 10	93	from less than 1 to 9
	157		189	

Note: A design and build project may cover works in one or more of the above work categories. The classification depends on the nature of works the Group principally undertakes in such project, and major revenue contributing in the project.

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Set out below is the breakdown of projects completed during the Track Record Period by range of contract sum:

Contract Sum	Number of projects completed for the year ended 31 March	
	2014	2015
HK\$10,000,000 or above	9	2
HK\$5,000,000 to below HK\$10,000,000	1	—
HK\$1,000,000 to below HK\$5,000,000	8	1
Below HK\$1,000,000	139	186
	157	189

The following table sets out the top ten design and built projects completed by the Group during the Track Record Period in descending order by contract sum:

Location of project	Type of works undertaken	Project period	Contract sum	Accumulated revenue recognised
		<i>months</i>	<i>(Note 1)</i> <i>HK\$ million</i>	<i>HK\$ million</i>
Tuen Mun Road Town Centre	Structural steelwork and roof works	54	55.4	62.9
Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong	Facade	24	35.8	40.2
Fanling Highway between MTR Fanling Station and Wo Hing Road	Structural steelwork and noise barriers	26	30.4	28.3
Kai Tak Development Site 1A	Facade	27	19.8	27.0
Deep Water Bay Road, Shouson Hill	Facade	13 <i>(Note 2)</i>	16.5	18.2
Tseung Kwan O Town Lot No. 90, Area 85, Site A	Facade	22	16.0	13.2
Sai Chuen Road, Sham Shui Po	Noise barriers and roof works	26	11.7	11.8

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<u>Location of project</u>	<u>Type of works undertaken</u>	<u>Project period</u> <i>months</i>	<u>Contract sum</u> <i>(Note 1)</i> <i>HK\$ million</i>	<u>Accumulated revenue recognised</u> <i>HK\$ million</i>
Lamma power station	Facade	18	11.2	10.2
Tai Wo Road, Tai Po	Structural steelwork and noise barriers	15	10.7	10.7
No. 703–705 Nathan Road	Facade	15	10.6	11.1

Notes:

1. The contract sum does not take into account of any variation orders issued by the customers and is only based on the initial engagement agreements entered into or quotation agreed upon between the Group and its customers.
2. The contract period estimated by reference to the certificate of practical completion issued by the project architect in October 2010 but the Group had continued to carry out additional works pursuant to variation orders issued by the customer until February 2014.

Projects in progress as at 31 March 2015

As at 31 March 2015, the Group had 102 projects in progress which represented projects that had commenced but not yet completed. The following table sets out the Groups’ major projects in progress as at 31 March 2015 in descending order by contract sum:

<u>Location of project</u>	<u>Type of works undertaken</u>	<u>Expected/actual completion date</u>	<u>Expected/actual project period</u> <i>months</i>	<u>Contract sum</u> <i>(Note)</i> <i>HK\$ million</i>	<u>Accumulated revenue recognised as at 31 March 2015</u> <i>HK\$ million</i>
Fire Services Training School cum Driving Training School at Pak Shing Kok, Area 78, Tseung Kwan O	Facade, roof works and structural steelwork	October 2015	22	106.5	76.5
Kennedy Town Swimming Pool	Structural steelwork and roof works	December 2016	20	81.5	7.9

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<u>Location of project</u>	<u>Type of works undertaken</u>	<u>Expected/actual completion date</u>	<u>Expected/actual project period</u> <i>months</i>	<u>Contract sum (Note)</u> <i>HK\$ million</i>	<u>Accumulated revenue recognised as at 31 March 2015</u> <i>HK\$ million</i>
Liantang/ Heung Yuen Wai Boundary Control Point	Structural steelwork and noise barriers	December 2017	43	70.7	3.1
No. 183, Fung Yuen, Tai Po	Facade	June 2015	35	67.1	57.3
11 Sheung Yuet Road, New Bright Building Kowloon Bay	Facade	March 2016	13	57.3	4.9
Sai Yee Street, Mongkok	Facade	February 2016	14	50.1	1.2
Un Chau Street Kowloon	Facade	May 2015	30	41.9	43.3
Shatin Area 52 Phase 1 and 2	Structural steelwork and noise barriers	July 2016	36	38.7	16.2
Yuen Long Public Library and Indoor Recreation Centre	Roof and related works	December 2015	14	38.0	8.0
Urban Renewal Project, Shamshuipo	Facade	October 2016	30	31.6	3.7

Note: The contract sum does not take into account of any variation orders issued by the customers and is only based on the initial engagement agreements entered into between or quotation agreed upon the Group and its customers.

Trading of building material products

The Group is also engaged in trading of building material products predominately in Hong Kong. The Group distributes and sells the products to its customers directly and typically does not provide installation services to its customers in this segment. For those customers which require the Group’s installation services, please refer to the paragraph headed “Design and build projects” under the subsection headed “Operating procedures” below for further details.

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For each of the Track Record Period, the Group’s revenue generated from trading of building material products were approximately HK\$5.7 million and HK\$13.5 million respectively. The building material products sold by the Group mainly include (i) roof and noise barrier materials; (ii) curtain wall fixing components; and (iii) other auxiliary materials.




The roof materials generally refer to the covering applied to a roof in order to provide protection from the weather and/or for aesthetic appeal. The roof materials sold and distributed by the Group include metal sheeting which are typically made of aluminum and stainless steel, such as galvanized and plastic coated steel sheets, sandwich panels, trapezoidal roofing sheets, standing seam roofing system. The noise barrier materials sold by the Group mainly include different kinds of acrylic (PMMA) sheet while the curtain wall fixing components are those fittings or fixing components used in supporting and fixing of the facade panel system; and other auxiliary materials include the fall arrest equipment and devices that are used for providing fall protection to prevent injury to employees whilst performing work assignments at elevated levels. The fall arrest equipment and devices sold by the Group mainly include roofing kits, anchors and lifeline products.

As at the Latest Practicable Date, the Group is currently the authorised distributor of six international brands of building material products in Hong Kong, Macau and/the PRC. Among these six international brand products, four of which were distributed and sold by the Group exclusively. These international brand products are mainly imported from various countries such as Germany, the United Kingdom and USA.

The Group is responsible for sourcing and supplying products in accordance with the specifications and requirements set out by the Group’s customers. For details in relation to the operation flow of this business segment, please refer to the paragraph headed “Trading of building material products” under the subsection headed “Operating procedures” below this section.

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Leveraging on the Group’s track record and experience in trading of building material products, the Group introduced a series of noise barrier materials under its own brand names, namely “AcouGlas”, “AcouSafe” and “AcouGuard”. These noise barrier products did not contribute any revenue during the Track Record Period since they were first introduced in late 2014 and the Group has not yet concluded any sale of these products. The Group’s own brand name noise barrier materials, namely, “AcouGlas”, “AcouSafe” and “AcouGuard” have passed the relevant tests conducted by independent accredited laboratories in relation to international standards. For further details of the Group’s trademarks, please refer to the paragraph headed “Intellectual property rights of the Group” as set out in Appendix V to this [REDACTED]. Set out below is a list of the building material products under the Group’s brand names:

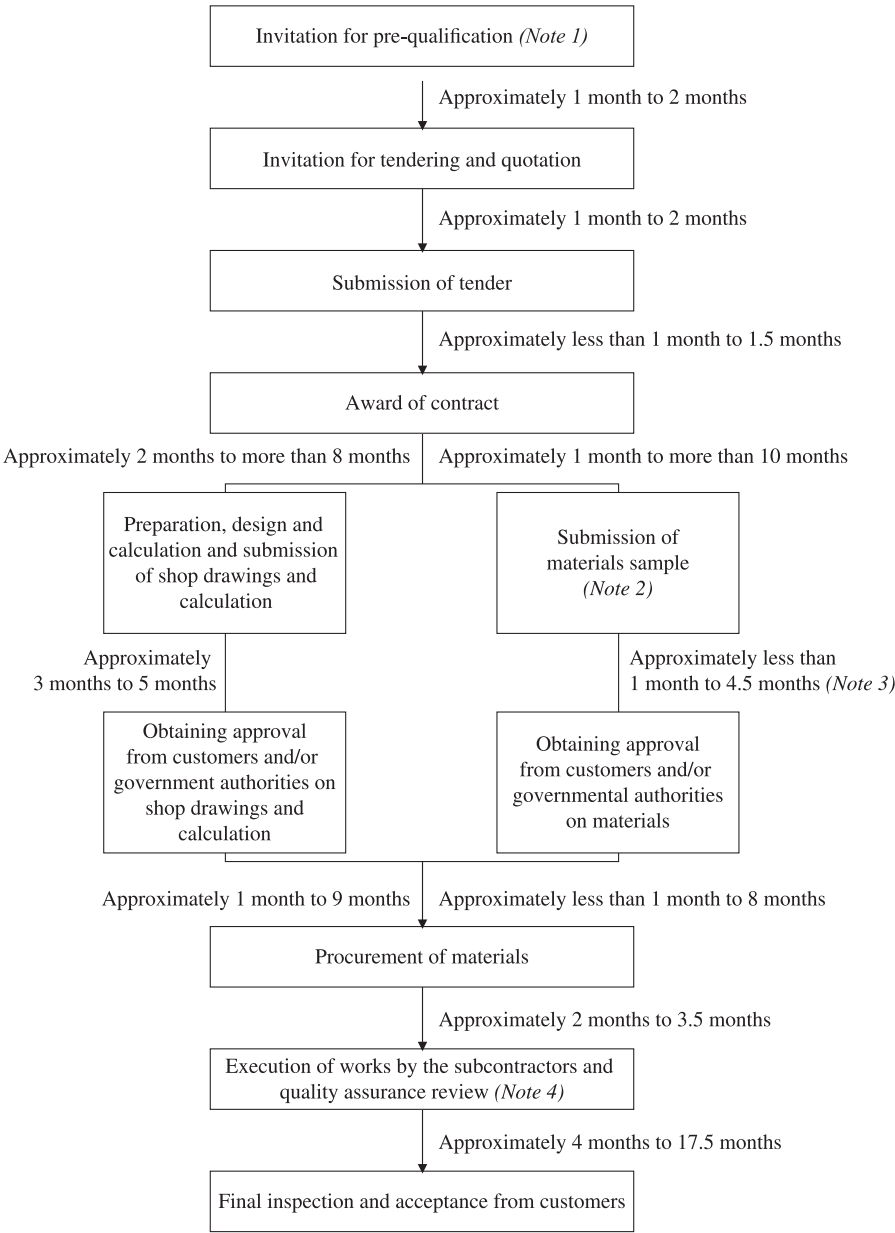
Trademark	Product description
	AcouGlas is a cast acrylic sheet made of Polymethyl Methacrylate (PMMA), which passed the tests conducted by an independent accredited acoustics laboratory and complies with the international standard BS EN 1793-2:1998 “Road traffic noise reducing devices — Tests method for determining the acoustic performance”. Products offered under the brand “AcouGlas” include a variety of acrylic glass of different sizes and colours.
	AcouSafe is aluminium acoustic panels for noise barriers, which passed the tests conducted by an independent accredited acoustics laboratory and complies with the international standard BS EN 1793-2:1998. There are three types of aluminium acoustic panels under the brand “AcouSafe”: (i) sound reflective panel without any perforation; (ii) sound absorptive panel with one side perforation; (iii) sound absorptive panel with both sides perforation; and (iv) sound absorptive panel for wall lining.
	AcouGuard is an integrated noise barrier system that is a combination of high rigidity aluminum profile and AcouGlas or tempered glass or laminated glass. AcouGuard passed the tests conducted by an independent accredited acoustics laboratory and complies with the international standard BS EN ISO 140-3:1995 “Acoustics — Measurement of sound insulation in buildings and of building elements”.

BUSINESS

OPERATING PROCEDURES

Design and build projects

The following flow chart is a general overview of the major steps involved in a design and build project:



Notes:

1. Invitation of pre-qualification is only required when the Group undertakes the design and build projects as a nominated subcontractor.
2. For smaller scale design and build projects undertaken by BuildMax (HK), submission of material sample for approval is generally not required.

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3. Testing of materials and quality control tests on completed works will be carried out from time to time at different stages since the approval of customers on shop drawing and calculation and until the final inspection and acceptance from customers.
4. In some of the design and build projects undertaken by the Group, execution of works by the subcontractors may commence shortly after award of contracts if no approval from customers and/or government authorities on the relevant materials is needed.
5. The time frame in the above flow chart is based on three of the projects completed during the Track Record Period, namely, (i) Kai Tak Development Site 1A project; (ii) Sai Chuen Road, Sham Shui Po project; and (iii) Fanling Highway between MTR Fanling Station and Wo Hing Road project, which were selected as examples as the Directors consider that most of the typical steps in a design and build project had taken place in such three projects and there were no significant unforeseeable delay occurred in between the major steps in such three projects.

The typical process of a design and build project undertaken by the Group commencing from the submission of tender and award of the contract or submission of quotation and acceptance by customers, procurement of the building material products to installation of the products the duration of which generally ranges from less than one month to approximately 54 months. This period varies according to a number of factors, including the size of the site area, the technical features and complexity of the design and build project, the progress of construction of the projects, the timelines specified by the customers and timing of approvals and consents for the shop drawings and sample materials from the customers or relevant government authorities.

Tendering for contracts

The Group is generally invited by its customers to submit a tender or provide a quotation for tendering a potential project or receives referrals and recommendations to submit bids for a project from architectural firms with whom the Group has a previous business relationship. The Group acts as a domestic subcontractor for projects when engaged by the main contractors and as a nominated subcontractor for projects when engaged by the main contractor through the nomination of the ultimate owners of the projects, such as developers or landlord of the relevant project site. To be a nominated subcontractor in a design and build project, the Group is usually required to participate in pre-qualification where a list of current and past projects undertaken by the Group, an organisational chart and the resumes of proposed project management team have to be submitted for its customers' consideration. Once the Group's qualification and experience are accepted by its customers, the Group will be informed and provided with the tender documents with an invitation to submit a tender. In the case of a domestic subcontractor project for which pre-qualification is not required, the Group will be invited to collect the tender documents and/or to attend the pre-tender submission interview. In deciding whether to submit a tender, the executive Directors will consider a number of factors, such as the capability and the then capacity of the Group, the availability of resources, the contract size, the profitability of the project and the worthiness to bid for a particular tender.

In the course of preparation of the tender submission, the executive Directors and the project manager will prepare a tender or quotation in accordance with the technical specifications and requirements of the potential project as set out by the Group's customers in the tender documents. The Group will take into account various factors, including (i) the nature and scope of works; (ii) the project specifications and requirements; (iii) the construction materials; (iv) design requirement; (v) labour and subcontracting costs; (vi) schedule of works; and (vii) the availability of resources.

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Tenders or quotations submitted during the Track Record Period

The following table sets out the number of tenders or quotations submitted, number of successful projects and the Group’s success rate during the Track Record Period:

	<u>For the year ended 31 March</u>	
	<u>2014</u>	<u>2015</u>
Number of tenders or quotations submitted	406	510
Number of successful projects	166	240
Success rate (%)	40.9	47.1

The success rate for tender or quotation was approximately 40.9% and 47.1% for the year ended 31 March 2014 and 2015 respectively. The success rate for tender increased during the Track Record Period mainly due to more tenders and quotations of smaller scale submitted, and the Directors consider that the success rate of smaller scale projects were generally higher than that of the sizable projects.

Award of contract

Upon receiving the Group’s tender or quotation, the customers may by way of interview or enquiries clarify with the Group the particulars of the tender. Based on the tender or quotation submitted by the Group, the customers may further negotiate with the Group on the commercial and technical terms. Usually the Group will be informed by way of a letter of intent issued by its customers pursuant to which the contract is awarded to Group. To formalise the award of contracts, the Group will enter into a formal engagement agreement with its customers accordingly. For the salient terms of the contract in relation to a design and build project, please refer to the paragraph headed “General terms of construction contracts” below in this section.

Project management

After successfully securing a project, a project management team will be formed which typically comprises an executive Director, a project manager, a structural engineering technicians, a design manager, a quantity surveyor and site foremen. The project management team is headed by a project manager, who is responsible for all aspects of the project including general project management, material procurement, communicating with other team members, coordinating with the customers’ team and subcontractors, quality control management, supervising the work progress and budget monitoring. The project manager will directly report to an executive Director for the work progress or issues of the project and attend meetings with the customers to review the project status, if necessary.

Design and engineering

The Group’s structural design and drawing teams will work closely with the project architect to modify the preliminary design into the detailed proposal, including but not limited to structural calculation, shop drawings, fabrication techniques as well as the installation method. Such detailed proposal will be submitted to the customers and/or the relevant government authorities for approval.

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The Group’s design team in Hong Kong takes the lead in managing the design works for the projects and is primarily responsible for developing the detailed structural drawings and detailed sketches in accordance with the specifications as set out by the customers. In the developing process, certain design works which generally do not involve any structural calculations, such as sketching by using computer-aided design techniques, will be allocated to the design team in Shenzhen office. Prior to the establishment of KPA (SZ), the Group had engaged independent third parties to provide such design works. The detailed structural drawings together with the sketching will be reviewed by the project management team in Hong Kong before submission to the customers.

During the Track Record Period, the design fees paid to independent third parties were approximately HK\$3.7 million and HK\$3.8 million, respectively. The Directors believe that it is more cost effective to allocate certain parts of the design works such as drawings to Shenzhen office than to recruit a team of draftsmen in Hong Kong. As at the Latest Practicable Date, the Group had 12 staff in structural design and drawing team in Hong Kong and 20 staff in shop drawing team in the PRC.

In order to maintain the quality of the Group’s design works, including structural calculation and shop drawings, the Group has a systematic work allocation mechanism and quality control measures. The Group has obtained the certificates of ISO 9001, ISO 14001 and OHSAS 18001 in respect of the Group’s quality management system.

Procurement of materials

After obtaining the approval of the detailed proposal, the Group will then submit the raw material samples together with the certificates and testing reports of the materials to the customer for approval before the Group use such materials in any design and build contract. The materials that the Group principally uses in its design and build projects include aluminium extrusions, aluminium sheet, steel, stainless steel, glass and roof cladding materials. The Group’s procurement department is responsible for purchasing the required materials and accessories for the projects. It is the Group’s policy to maintain minimal inventory level such that the Group often requires its suppliers to deliver the materials directly to the construction site if no fabrication or processing is required. For materials which required to be further processed, the Group will then engage processing factories to carry out processing and fabrication procedures. Pre-fabrication of the structural parts of the products enables the Group to have close control over their quality and also helps to reduce the work required to be done after the products are delivered to the construction sites. Depending on the terms of the relevant contracts, some customers may require the Group to engage the external testing laboratories to perform on-site inspection before packaging for delivery.

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Delivery, subcontracting and on-site installation

After passing the quality inspection, all the pre-fabricated products will be sent for packing. The Group may require its suppliers to deliver the pre-fabricated products, at the cost of the Group, to the designated construction sites for installation. The Group does not directly employ any workers for installation works and it will engage local subcontractors to undertake the labour-intensive process of installation works by entering into separate contracts with the Group’s subcontractors. With the use of subcontractors, the Group can undertake labour intensive works as well as works involving specified construction and installation skills through a significant pool of workers and technical staff in a wide variety of specific skills without the need for keeping them under permanent employment, thereby bringing economic benefits to the Group. In order to control and ensure the quality and progress of the works of subcontractors, the Group typically engages subcontractors from the approved list, which is reviewed and updated by the Group from time to time. Please refer to the sub-section headed “Subcontracting” below in this section for further details of the Group’s subcontractor. The assigned project manager is responsible for overseeing and supervising the installation process to ensure the installation satisfies the industry standard.

Variation orders

During the course of a project, the Group’s customers may require additional services or changes in the specifications which will result in extra works to be done and extra payments to be charged by the Group to the customers. The unit rates for the works under such variation order(s) are in general agreed upon between the Group and the customers and set out in the schedule of rates as provided in the relevant project contract.

Inspection and contract payment

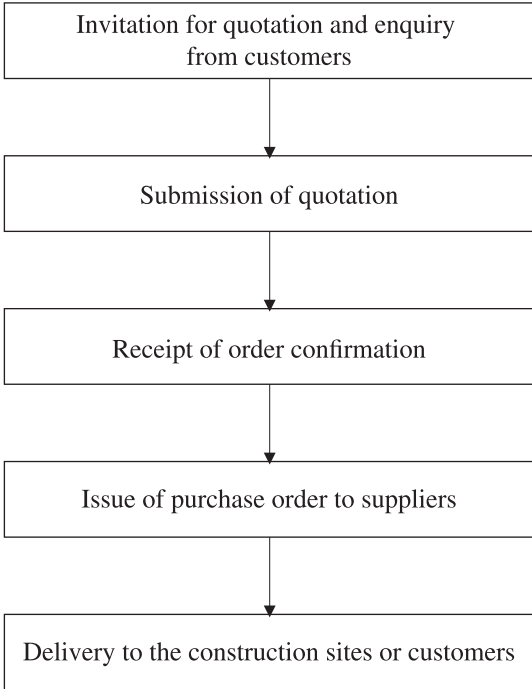
During the course of project execution, the Group and its customers will conduct inspection on all works completed to ensure that the works performed by the Group comply with the requirements and schedules as set out in the contracts. The Group will submit a payment application based on the work done on a monthly basis in accordance with the terms of each contract. After the inspection of the completed works by the customers and/or the authorised person of the customers, a payment certificate will be issued to the Group certifying the portion of work completed which normally takes approximately one month from the date of application.

The Group’s project contract with its customer generally contains a provision of retention money for up to 5% of the total contract sum of the project. The retention money will be withheld by the Group’s customer and 50% of which will be released to the Group upon issuance of the certificate of practical completion and the remaining 50% upon the expiration of the defect liability period and issuance of the certificate of making good defects by the authorised person of the project in respect of all the different trades of works completed for the whole construction project completed at the site.

BUSINESS

Trading of building material products

The following flow chart illustrates a general operation flow of the Group’s business segment in relation to trading of building material products:



In respect of the Group’s trading of building material products business, the process from customers’ order placement to delivery can range from a few days to several months. The Group’s products are sold to its customers on an order-by-order basis and the actual lead time depends on a number of factors, such as the quantity of an order, the availability of the building material products, and the delivery time required by the Group’s suppliers and/or specified by the customers.

Invitation for quotation

The Group generally sells and distributes its building material products through (i) direct order placements from its customers; and (ii) an invitation for quotation or incoming enquiries from potential customers. After receiving such invitation or enquiry, the Group will then prepare a quotation for its customers’ consideration. As certain products are sold and distributed by the Group as exclusive distributor in Hong Kong, some customers may directly place purchase orders to the Group without invitation for quotation. Based on the specifications of the customers, the Group’s quotation will set out the type, price and quantity of building material products, payment terms and the estimated delivery time.

BUSINESS

Quotations submitted during the Track Record Period

The following table sets out the number of quotations submitted, number of successful orders placed and the Group’s success rate during the Track Record Period:

	For the year ended 31 March	
	2014	2015
Number of quotations submitted	191	166
Number of successful orders placed	157	153
Success rate (%) (<i>Note</i>)	82.2	92.2

Note: The success rate does not take into account any direct purchase orders from customers without invitation for quotation and is calculated based on the number of successful order placement by customers divided by the number of quotation submitted to the customers during the respective financial year.

Order confirmation with customers

The Group does not enter into any separate sales and purchase agreements with its customers. Instead, a signed quotation will be returned to the Group upon the acceptance of the quotation by the customer. The Group will then issue an initial invoice to the customer and usually requires its customer to pay 30% of the purchase amount as deposit after the customer’s order is confirmed.

Placing of purchase orders to suppliers

Subject to the availability of stock, the Group may issue a purchase order for the purchase of building material products to the suppliers in accordance with the customers’ orders. The Group’s purchase order will set out the type, price and quantity of building material products based on the specifications of the Group’s customers. For further details of the salient terms in a typical purchase transaction, please refer to the paragraph headed “Salient purchase terms” under the subsection headed “Suppliers” below.

Delivery

After receiving the order confirmation from the Group’s suppliers, the Group normally will engage the forwarding agent to collect the products from the suppliers’ warehouses and deliver to Hong Kong. Upon arrival, such products are either temporarily stored in the Group’s warehouse before delivery to its customers or delivered to the designated location as specified by the customers. Generally, the products will be inspected by the customers prior to the acceptance of them. For further information on the typical delivery details in respect of the Group’s trading business, please refer to the paragraph headed “General terms of order confirmation”.

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LICENCES AND PERMITS

To facilitate the Group’s design and build projects in Hong Kong, the Group has obtained and held several licences and permits. The following table sets out the details of the Group’s major licences and qualification as at the Latest Practicable Date:

<u>Licences and qualifications</u>	<u>Holder</u>	<u>Issuing authority</u>	<u>Type(s) of works covered</u>	<u>Expiry date</u>
List of Approved Suppliers of Materials and Specialist Contractors for Public Work	KPa Engineering	Development Bureau	Structural steelwork	— <i>(Note 1)</i>
List of Approved Suppliers of Materials and Specialist Contractors for Public Work	KPa Engineering	Development Bureau	Transparent panels for noise barrier in highways	— <i>(Note 1)</i>
Registered Minor Works Contractors (Class II and III)	KPa Engineering	Buildings Department	Minor works include those comparatively lower complexity and risk to safety and common household minor works as set out in the Building (Minor Works) Regulation	18 June 2016
Registered Subcontractor	KPa Engineering	Construction Industry Council	Structural steelwork, marble/granite work, aluminum window/louvers, curtain wall/glass wall, stainless steel work, metal roof/skylight/cladding/space frame, glazier work, false ceiling, and renovation and fitting-out	10 May 2017

Note:

1. “—” denotes not subject to any periodic renewal conditions.

KPa Engineering is an approved specialist contractor in the category of structural steelwork and an approved supplier of materials in the category of transparent panels for noise barriers on highways with the Development Bureau. It is also a registered minor works contractor with the Buildings Department. As at the Latest Practicable Date, the roles of authorised signatory and technical director were taken up by Mr. Lui for registration of Register Minor Works Contractors (Class II and III).

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

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In order to build up a pool of capable and responsible subcontractors with specialized skills and strong professional ethics, the Construction Industry Council has introduced a registration scheme for trade subcontractors taking part in building and engineering works. KPa Engineering is one of the subcontractors registered under the trade specialties of “Structural steelwork”, “marble/granite work”, “aluminum window/louvers”, “curtain wall/glass wall”, “stainless steel work”, “metal roof/skylight/cladding/space frame”, “glazier work”, “false ceiling”, and “renovation and fitting-out” with the Construction Industry Council. Being registered on the Subcontractor Registration Scheme at the Construction Industry Council is required for subcontractors to participate in public projects commissioned by certain Government authorities and statutory bodies, such as the Development Bureau and Hong Kong Housing Authority.

BuildMax (HK) undertakes works, such as roof related works, and flagpoles and related works, which do not fall into the minor works category. As advised by the Hong Kong Legal Advisers, BuildMax (HK) is not required to obtain any requisite licences, permits or approval other than the business registration for carrying on the above works.

After obtaining advices from the Hong Kong Legal Advisers, the Directors confirmed that the Group has obtained all necessary licences, permits, consents and approvals for the Group’s business operations in Hong Kong respectively and all of them are valid. The Directors confirm that the Group did not experience any material difficulties in obtaining and/or renewing such licences, permits, consents and approvals. Further, the Directors confirm that they are not aware of any circumstances that would significantly hinder or delay the renewal of such licences, permits, consents and approvals.

CUSTOMERS

Characteristics of the Group’s customers

The Group’s customers for design and build projects primarily include main contractors of various types of construction projects and property occupiers in Hong Kong. The Group’s customers for trading of building material products are mainly main contractors and subcontractors in Hong Kong. For each of the two years ended 31 March 2014 and 2015, there were 121 and 159 customers who contributed to the Group’s revenue respectively. During the Track Record Period, the majority of the Group’s customers are located in Hong Kong.

Top five customers

During each of the Track Record Period, the Group’s top five customers in aggregate accounted for approximately 81.0% and 75.7% of the Group’s total turnover respectively, while the Group’s largest customer accounted for approximately 30.4% and 49.9% of the Group’s total turnover respectively. The top five customers of the Group during the Track Record Period have maintained business relationships with the Group for a period ranging from less than one year to more than 13 years.

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Set out below is a breakdown of the Group’s revenue attributable to the Group’s top five customers during the Track Record Period:

	For the year ended 31 March 2014	
	HK\$'000	%
Customer A	62,323	30.4
Customer B	37,311	18.2
Customer C	29,166	14.2
Customer D	24,028	11.7
Customer E	13,420	6.5
Five largest customers in aggregate	166,248	81.0
All other customers	39,037	19.0
Total revenue	205,285	100.0
	For the year ended 31 March 2015	
	HK\$'000	%
Customer C	98,602	49.9
Customer A	27,129	13.7
Customer F	10,250	5.2
Customer G	8,095	4.1
Customer H	5,466	2.8
Five largest customers in aggregate	149,542	75.7
All other customers	47,893	24.3
Total revenue	197,435	100.0

All of the Group’s top five customers during the Track Record Period are Independent Third Parties. To the best knowledge of the Directors, none of the Directors, their close associates, or any Shareholders (which to the knowledge of the Directors owns more than 5.0% of the Company’s issued share capital upon completion of the [REDACTED]) had any interest (direct or indirect) in any of the Group’s five largest customers during the Track Record Period.

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Set out below is the background information of the Group’s top five customers during the Track Record Period:

<u>Customer</u>	<u>Products/ services purchased (Note)</u>	<u>Principal business</u>	<u>Location</u>	<u>Years of business relationship</u>	<u>Typical credit terms and payment method (approximately)</u>
Customer A	1, 2 and 3	Construction contractor	Hong Kong	more than 9 years	30 days after payment application
Customer B	2	Construction contractor	Hong Kong	more than 2 years	60 days after payment application
Customer C	1, 2 and 3	Construction contractor	Hong Kong	more than 13 years	30 days after payment application
Customer D	1 and 2	Construction contractor	Hong Kong	more than 4 years	45 days after payment application
Customer E	1	Construction contractor	Hong Kong	more than 3 years	60 days after payment application
Customer F	1 and 2	Construction contractor	Hong Kong	more than 11 years	30 days after payment application
Customer G	2	Construction contractor	Hong Kong	less than 1 year	30 days after payment application
Customer H	2	Retail bank	Hong Kong	less than 1 year	45 days after payment application

Notes:

1. Design, supply and installation of structural steelwork and noise barriers
2. Design, supply and installation of facade, roof and related works
3. Trading of building materials products

Customer A is a group of companies incorporated in Hong Kong under the same ultimate holding company and is principally engaged in civil engineering, building construction and other specialist works. The parent company of Customer A is a company listed on the Main Board and its principal

BUSINESS

activities are management contracting, property development management, property management and hotel development. According to the 2015 annual report of Customer A’s parent company, it recorded a revenue of approximately HK\$9,323.4 million and a net loss of approximately HK\$29.9 million for the year ended 31 March 2015, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$2.4 billion as at the Latest Practicable Date.

Customer B is principally engaged in civil engineering and general building works in Hong Kong. It is a wholly-owned subsidiary of a company listed on the Main Board. The principal business of Customer B’s parent company is foundation, civil engineering and general buildings works in Hong Kong. According to the listing document of Customer B’s parent company, its revenue and net profit were approximately HK\$463.0 million and approximately HK\$50.6 million respectively. Its market capitalisation on the Stock Exchange was approximately HK\$584.0 million as at the Latest Practicable Date.

Customer C is principally engaged in building construction, civil and foundation engineering works in Hong Kong. It is a wholly-owned subsidiary of a company listed on the Main Board. According to the 2014 annual report of Customer C’s parent company, the revenue and net profit of such company were approximately HK\$34,439.6 million and approximately HK\$3,387.9 million for the year ended 31 December 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$49.4 billion as at the Latest Practicable Date.

Customer D is principally engaged in infrastructure construction work in Hong Kong and the PRC. It is a wholly-owned subsidiary of a company listed on the Main Board. According to the 2014 annual report of such company, its revenue and net profit were approximately RMB366,042.0 million and approximately RMB13,883.0 million for the year ended 31 December 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$42.8 billion as at the Latest Practicable Date.

Customer E is a private company incorporated in Hong Kong in 1996. It is a Building Department’s registered general building contractor who specialises in interior design, fitting-out, alteration and addition works.

Customer F is a group of companies incorporated in Hong Kong which is principally engaged in construction, interior design and decoration. The parent company of Customer F is listed on the Main Board and its principally business is engaged in civil engineering, electrical and mechanical engineering, foundation and building construction work, property development, property investment, professional services including provision of security and property management services. According to the 2014 annual report of Customer F’s parent company, its revenue and net profit were approximately HK\$6,551.2 million and approximately HK\$93.3 million for the year ended 31 March 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$1.8 billion as at the Latest Practicable Date.

Customer G is principally engaged in all kinds of construction work in Hong Kong as main contractor. It is currently in the List of Approved Contractors for Public Works under Group C (Confirmed) of the Building Category under the Development Bureau, the List of Approved Contractors for Public Works under Group A (on probation) of the Roads & Drainage Category under Environment, Transport and Works Bureau, the List of Building Contractors for New Works — Group NW1, and

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Building (Maintenance Works) Category — Group M2 administered by the Hong Kong Housing Authority and holds the certificate of Registration of General Building Contractor issued by the Buildings Department.

Customer H is the Hong Kong banking subsidiary of a leading banking group headquartered in the PRC and listed on the Main Board. According to the latest annual report of Customer H’s parent company, its revenue and net profit were approximately RMB456.3 billion and approximately RMB177.2 billion for the year ended 31 December 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$389.7 billion as at the Latest Practicable Date.

Pricing strategies

Construction contracts for design and build projects

The Group usually determines the price on a project-by-project basis depending on: (i) the nature, scope and complexity of the project; (ii) the estimated number and types of workers required; (iii) the costs of raw materials and subcontracting charges; (iv) the completion time requested by customer; and (v) the prevailing market conditions.

Among the design and build projects completed by the Group during the Track Record Period, the Group recorded three material loss-making projects:

(i) The original contract sum, excluding variation orders, of the first loss-making project (“**Project A**”) was approximately HK\$17.8 million and this was a design and build project related to facade works for a residential development project located in Kai Tak Development Site. Project A was completed in June 2013 and the loss recorded during the Track Record Period was approximately HK\$4.8 million. Project A was loss making mainly due to the extra costs incurred by employing extra labour for the installation works in order to complete the project on time.

(ii) The original contract sum, excluding variation orders, of the second loss-making project (“**Project B**”) was approximately HK\$16.5 million and this was a design and build project relates to facade and related works for a residential property located in the southern area of Hong Kong. Project B was completed in March 2014 and the loss recorded during the Track Record Period was approximately HK\$0.5 million. Project B was loss making due to the extra costs incurred by construction materials replacement.

(iii) The original contract sum, excluding variation orders, of the third loss-making project (“**Project C**”) was approximately HK\$3.3 million and this was a design and build related to roof works for a park and cycling stadium located in Tseung Kwan O. Project C was completed in September 2013 and the loss recorded during the Track Record Period was approximately HK\$0.6 million. Project C was loss making mainly due to underestimation of steel required for the related works.

Order confirmations for building material products

The Group usually determines the price at cost-plus basis with the consideration of (i) the specification of the products; (ii) the size of order; (iii) the costs of products; and (iv) the estimated time and labour cost required. The price quotes will be reviewed and approved by the Group’s senior management to ensure the products sold are at the accepted profit margin.

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General terms of construction contracts

Instead of entering into long-term contract, the Group is generally engaged by its customers in design and build projects on a project-by-project basis. The Group’s project contracts are mainly remeasurement contract containing, among other things, bills of quantities, or schedule of rate which is one of the contract types commonly adopted in the industry. The agreed unit rates of each item and the estimated quantities of various items of works based on the tender drawings are set out in the bills of quantity. Such bills of quantities are generally prepared by the project architect engaged by the customer or main contractor. When the works are completed, the customer will measure the actual quantities of works executed on-site and the Group will be paid based on works done. Other than remeasurement contract containing bills of quantities, some of the Group’s project contracts are lump sum fixed price contracts in which the contract payment will be based on a fixed contract sum agreed in the contract for carrying out the whole of the works as specified in the specification, drawings and technical requirements of customers and no remeasurement will be conducted except for works done pursuant to variation order issued by customers. The Directors believe that such practice is in line with the general practice within the industry. The general terms of project contracts may vary based on negotiations with the customers but generally follow the form set out in the customer’s tender documents. The major contracts terms are summarised as below:

- Scope of works : The scope of services and type of works to be carried out by the Group are specified in the project contract. Contracts may also include the product specifications and requirements as set out by its customers.

- Duration of work : The Group shall follow the pre-determined construction work schedule as specified by the customers, which may be extended from time to time pursuant to the terms of the contract.

- Subcontracting : Subcontracting is subject to prior written approval of the Group’s customers. The Group shall supervise, carry out inspection on and be liable for the works done by its subcontractors. For details of the subcontracting arrangement, please refer to the subsection headed “Subcontractors” below this section.

- Payment terms : Interim payment application shall be submitted to the customers on a monthly basis. Please refer to the paragraph headed “Credit policy” under this section for details.

- Insurance : All projects undertaken by the Group and the relevant employees are respectively protected by contractors’ all risks and employees’ compensation insurances which, depending on the terms of the relevant contracts, are taken out either by the main contractors or the Group.

- Retention money : The Group’s customers generally withhold approximately 10% of each progress payment to the Group as retention money. The total amount of the retention money is generally capped at 5% of the total contract sum of each project. In general, half of the retention money will be released upon the practical completion while the rest will be released upon the expiry of the defect liability period.

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- Surety bond : For some of the contracts, the Group is required to provide a surety bond generally equal to approximately 10% of the total contract sums issued by banks or insurance companies in favour of the customers as security for the due performance and observance of the Group’s obligations under the relevant project. The surety bonds are normally released upon completion of the project or as specified in the relevant contract.
- Defect liability period : In general, the Group is required to provide a defect liability period of 12 months after the practical completion of the contract works or for such other period as the customer may specify depending on the nature and the scale of the project. During the defect liability period, the Group is responsible for, at its own expense, rectifying any defects in relation to the works completed by it.

General terms of order confirmation

In respect of the Group’s trading of building material products segment, its customers generally place a single purchase order instead of entering a long-term supply contract with the Group. The general terms of order confirmation may vary based on negotiations with the customers but generally follow the form set out in the Group’s quotation. The major terms are summarised as below:

- Product description : A description of the products is contained, including the type, size and technical specification of the products. The quantity, the unit price and total amount are specified.
- Payment terms : A deposit of 30% of the total amount of the purchase is required upon the confirmation and a credit period of 30 days is generally granted to the Group’s customers.
- Delivery : The estimated delivery time is specified, which is usually 4 to 120 days from the date of order confirmation for the products which the Group does not have any inventory. For customers’ purchase of products from the Group’s inventory that are available for immediate delivery, delivery is usually 4 days. The Group may engage third-party logistics companies to deliver the products to the designated location as specified by its customers on or before the agreed delivery date.
- Warranty : The Group may provide a warranty of normally up to 10 years from the date of delivery if a warranty of a corresponding period is provided by the supplier of the product.

Credit policy

Construction contracts for design and build projects

In respect of the Group’s structural engineering business, the Group needs to submit a payment application for an interim payment to its customers on a regular basis, usually on a monthly basis. The monthly cut-off date of such payment applications is normally specified in the relevant contracts. The

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payment application generally includes the estimated value of all works properly done and materials delivered to site, if applicable, by the Group during the period covered by the payment application. Once the Group’s customer has reviewed and agreed on the interim payment application, an interim payment certificate will be issued to the Group and this process usually takes about one month. Subsequently, the interim payment will be settled within about another one month. During the Track Record Period, all construction contracts signed by the Group with its customers are denominated in Hong Kong dollars and the Group’s customers usually settle the payment by cheque.

The Group’s customers generally retain one moiety of each interim payment, usually 10%, with a maximum limit being usually 5% of the total contract sum as retention money. Normally, half of the retention money held will be released upon substantial completion of the Group’s works after inspection by its customer and the other half of the retention money held will be released upon the expiry of the defect liability period and the certificate of making good defects being issued by the representative of the employer of the project in respect of all the different types of works completed for the whole of the construction project completed at the site.

In order to ensure all payments have been received by the Group or followed up with its customers, the Group maintains a register of interim payment applications submitted and payment certificates received on a timely basis. Upon the due date of retention receivables, the Group will follow up with its customers by contacting the customers directly and re-issue the invoice if necessary. If there is any difficulties in collecting the retention receivables, the Group’s management will also consider issuing demand letter to its customers. For details on the Group’s receivable turnover days, please refer to the section headed “Financial information — Trade receivables analysis” to this [REDACTED].

Trading of building material products

In respect of the Group’s trading of building material products business, the Group normally requires its customers to pay a deposit of 30% of the total amount of the purchase upon the confirmation and the Group usually grants a credit period of 30 days upon the delivery of products to its customers.

During the Track Record Period, the purchase orders or quotations signed by the Group with its customers were denominated in Hong Kong dollars and the Group’s customers usually settle the payment by cheques. Normally no retention money is required for the Group’s trading business. For details on the Group’s receivable turnover days, please refer to the section headed “Financial information — Trade receivables analysis” to this [REDACTED].

Seasonality

The Directors consider that there is no material seasonal pattern of the sales of the Group.

Sustainability of the Group’s business in view of the reliance on major customers

For each of the Track Record Period, the percentage of the revenue attributable to the Group’s five largest customers amounted to approximately 81.0% and 75.7% of the Group’s total revenue respectively, while the percentage of the revenue attributable to the Group’s largest customer amounted to approximately 30.4% and 49.9% respectively for the same period. Please refer to the paragraph headed “The Group’s top five customers accounted for over 75.0% of the Group’s total revenue, failure to retain business relationship with them or secure new business may affect the Group’s operations and financial performance” under the section headed “Risk factors” to this [REDACTED] for the customer concentration risk.

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Despite the aforesaid figures during the Track Record Period exhibit certain degree of customer concentration, the Directors consider that the Group is not reliant on any single customer because:

- (i) the Group undertakes projects of considerably different scale. A sizeable project undertaken by the Group would contribute to a significant portion of the Group’s revenue in the particular period which would result in the relevant customer becoming one of the Group’s top customers in that particular period;
- (ii) among the top five customers, only Customer A and Customer C were the Group’s top five customers for both of the two years ended 31 March 2014 and 2015, respectively. The Group has an established business relationship with its top customers for a period ranging from less than 1 year to over 13 years. The Directors believe that the close relationship with its major customers is built on the Group’s past performance and its ability to provide services that meet its customers’ needs;
- (iii) subsequent to the Track Record Period, the Group has been awarded with five new design and build projects with a contract sum of over HK\$1.0 million each and the aggregated contract sum for these projects on hand amounted to approximately HK\$102.1 million; and
- (iv) as at the Latest Practicable Date, the remaining contract sum (excluding the variation orders) with Customer C was approximately HK\$21.4 million, representing approximately 20.1% of the aggregated contract sum for the new contracts on hand as aforementioned.

SUPPLIERS

Characteristics of the Group’s suppliers

The Group’s suppliers include suppliers of building material products, such as aluminium and steel products, glass and roof materials. Most of the Group’s suppliers of materials are sourced from Hong Kong, the PRC and Germany. During each of the Track Record Period, purchase from the largest supplier of the Group, namely BuildMax (SZ), accounted for approximately 19.9% and 16.4% respectively, of the Group’s total material and processing charges.

Top five suppliers

During each of the Track Record Period, purchase from the Group’s top five suppliers in aggregate accounted for approximately 50.3% and 54.9% of the Group’s total material and processing charges respectively, while purchase from the Group’s largest supplier accounted for approximately 19.9% and 16.4% of the Group’s total material and processing charges respectively. The top five suppliers of the Group during the Track Record Period have maintained business relationships with the Group for a period ranging from more than one year to more than 16 years.

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Set out below is a breakdown of the Group’s purchases by the Group’s top five suppliers during the Track Record Period:

	For the year ended 31 March 2014	
	<i>HK\$'000</i>	%
BuildMax (SZ)	14,514	19.9
Shenzhen Hengyauyuan	10,288	14.1
Supplier C	4,745	6.5
Supplier D	3,733	5.1
Supplier E	<u>3,437</u>	<u>4.7</u>
Five largest suppliers in aggregate	36,717	50.3
Other suppliers	<u>36,035</u>	<u>49.7</u>
Total material and processing charges	<u>72,752</u>	<u>100.0</u>
	For the year ended 31 March 2015	
	<i>HK\$'000</i>	%
BuildMax (SZ)	11,886	16.4
Supplier F	8,883	12.3
Supplier D	8,468	11.7
Supplier G	6,686	9.2
Shenzhen Hengyauyuan	<u>3,864</u>	<u>5.3</u>
Five largest suppliers in aggregate	39,787	54.9
Other suppliers	<u>32,706</u>	<u>45.1</u>
Total material and processing charges	<u>72,493</u>	<u>100.0</u>

BUSINESS

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

<u>Supplier</u>	<u>Products sold to the Group</u>	<u>Principal business</u>	<u>Location</u>	<u>Years of business relationship</u>	<u>Typical credit terms and payment method (approximately)</u>
BuildMax (SZ)	Aluminium cladding	Aluminium supplier and fabricator	PRC	more than 4 years	30 days upon receipt of invoices by cheque
Shenzhen Hengyayuan	Aluminium cladding	Aluminium supplier	PRC	more than 7 years	30 days upon receipt of invoices by cheque
Supplier C	Laminated tempered glass and clear tempered glass	Glass supplier	Hong Kong	more than 2 years	30 days upon receipt of invoices by cheque
Supplier D	Steel material	Steel supplier	Hong Kong	more than 16 years	60 days upon receipt of invoices by cheque
Supplier E	Sandwich panel	Roof cladding supplier	Germany	more than 13 years	60 days upon receipt of invoices by telegraphic transfer
Supplier F	Steel material	Steel supplier	Hong Kong	more than 1 year	30 days upon receipt of invoices by cheque
Supplier G	Roof material	Roof material supplier	Hong Kong	more than 3 years	30 days upon receipt of invoices by letter of credit/telegraphic transfer/invoice financing

BuildMax (SZ) is a sino-foreign equity joint venture enterprise established in the PRC, which is owned as to 75.0% by Hillford and 25.0% by Shenzhen Hengyayuan. Owing to Mr. Lui, Mr. Wai and Mr. Yip’s shareholding interest in Hillford, Hillford is therefore a connected person to the Company. BuildMax (SZ) owns and operates the Processing Factory and it is principally engaged in (i) the processing, fabrication and manufacturing of building material products in the PRC; and (ii) the sales and supply of building material products, such as aluminium and stainless steel products, predominately to the Group in Hong Kong and to customers in the PRC. For further detail of the Group’s business relationship with BuildMax (SZ), please refer to the paragraph headed “Connected transactions — Non-exempt continuing connected transactions” to this [REDACTED].

Shenzhen Hengyayuan is a private company established in the PRC and owned as to 60.0% by Mr. JH Liu and 40.0% by an Independent Third Party. It is principally engaged in trading and sourcing of aluminium products in the PRC. Shenzhen Hengyayuan is one the Group’s top suppliers during the Track Record Period.

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Supplier C is a private company incorporated in Hong Kong with limited liability. It is principally engaged in the wholesale of construction glass material products.

Supplier D is a private company incorporated in Hong Kong with limited liability. Its principal business is the sales of steel and aluminium construction materials.

Supplier E is principally engaged in manufacturing of roof and wall elements for industrial buildings with regional sales offices located in Germany. It belongs to a global steel group headquartered in India, which is dual listed on Bombay Stock Exchange and National Stock Exchange of India Limited.

Supplier F is a private company incorporated in Hong Kong with limited liability. It is principally engaged in the sales of steel products for construction industry and the provision of processing services.

Supplier G is a private company incorporated in Hong Kong with limited liability. Supplier G is principally engaged in trading of roofing materials.

Save for BuildMax (SZ), to the best knowledge of the Directors, none of the Directors, their close associates, or any Shareholders (which to the knowledge of the Directors owns more than 5.0% of the Company’s issued share capital upon completion of the [REDACTED]) had any interest (direct or indirect) in any of the Group’s five largest suppliers during the Track Record Period.

Criteria for selection of suppliers

The Group selects the suppliers based on a number of criteria including but not limited to their technical capability, track records, prices, product quality and timely delivery. The Group, in most cases, sources the materials from suppliers after the project is awarded or customers confirm their orders. The Group does not rely on a single source of supply for any of its building material products. The Directors consider that all the principal materials used or utilised by the Group can be purchased from a number of alternative suppliers at terms comparables to those of the Group’s current suppliers. During the Track Record Period, the Group did not encounter any material shortage in the supply of the required building material products from its suppliers.

Salient purchase terms

The Group does not enter into any long-term supply agreement with its suppliers. Instead, the Group will place a purchases order or request for quotation for each purchase. The Directors believe that such practice is in line with the general practice within the industry. The terms of each purchase transaction entered by the Group with its supplier may vary, salient terms of typical purchase transaction are shown as below:

- Materials specifications : A description of the material is contained, including the type of materials, quantity, size and technical specification of the products.
- Payment terms : For further details regarding the payment terms, please refer to the below section headed “Business — Suppliers — Credit Policy”.

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- Deposit : Generally no deposit is required by the Group’s suppliers.
- Delivery : The Group may require its suppliers to deliver the goods at the cost of the Group, to deliver the goods to the designated location.
- Warranty : For construction materials which will be fabricated and consumed in the Group’s design and build projects, the Group’s suppliers do not provide any warranty after the date of delivery. The Group will conduct testing or invite its customers to inspect the samples provided by the suppliers. The Group will only take the whole ordered quantity if the testing result or inspection is satisfactory, otherwise the Group will not take the ordered quantity and will only be required to pay for the price of the samples.

For building material products which will be sold or distributed by the Group or consumed in the Group’s design and build projects, the Group’s suppliers may provide a warranty of normally up to 10 years from the date of delivery.

Credit policy

Since some of the Group’s suppliers are located outside Hong Kong, the purchase contracts made by the Group during the Track Record Period are dominated in different currencies, such as RMB, US\$ and Euro depending on each purchase order. The credit terms granted by the Group’s suppliers range from 30 to 60 days. The Group usually settles the payment by cheque or bank transfer.

Sensitivity analysis

For reference purpose, the following table illustrates the sensitivity analysis of the estimated increase/decrease of the Group’s profit before tax in relation to general percentage changes to the prices of material and processing charges with reference to the hypothetical fluctuation rates of 10% and 20% respectively, with all other variables being constant.

Hypothetical fluctuations in material and processing changes	-10%	-20%	+10%	+20%
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Increase/(Decrease) in profit before tax				
Year ended 31 March 2014	7,275	14,550	(7,275)	(14,550)
Year ended 31 March 2015	7,249	14,498	(7,249)	(14,498)
Increase/(Decrease) in profit after tax				
Year ended 31 March 2014	6,075	12,150	(6,075)	(12,150)
Year ended 31 March 2015	6,053	12,106	(6,053)	(12,106)

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Inventory control

The Group maintains a minimal level of inventories. Most of the Group’s inventories are merchandises in relation to its trading of building material products business; while the rest are goods in transit. As at 31 March 2014 and 31 March 2015, the Group’s inventories were approximately HK\$2.5 million and HK\$3.3 million respectively.

Set out below is a breakdown of the Group’s inventories during the Track Record Period:

	As at 31 March	
	2014	2015
	HK\$'000	HK\$'000
Merchandise for sale	2,372	2,754
Goods in transit	175	555
Total	2,547	3,309

There is no material obsolete stock in the Group’s inventory due to the characteristic of the building materials. For a detailed inventory analysis, please refer to the section headed “Financial information — Inventory analysis” to this [REDACTED].

SUBCONTRACTORS

Characteristics of the Group’s subcontractors

The Group does not retain any direct labour for installation works of its business segment in relation to structural engineering works. Therefore, the Group subcontracts the installation works of each design and build project to other subcontractors. During the Track Record Period, all subcontractors engaged by the Group are located in Hong Kong.

The subcontractors engaged by the Group are Independent Third Parties and they are not the employees of the Group. The Group is independent from the employment arrangement between the Group’s subcontractors and their employees. The following table sets out the subcontracting charges incurred by the Group during the Track Record Period:

	For the year ended 31 March	
	2014	2015
	HK\$'000	HK\$'000
Subcontracting charges	79,474	54,633

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Top five subcontractors

During each of the Track Record Period, subcontracting charges of the Group’s top five subcontractors in aggregate accounted for approximately 50.7% and 65.9% of the Group’s total subcontracting charges respectively, while subcontracting charges of the Group’s largest subcontractor accounted for approximately 15.5% and 36.7% of the Group’s total subcontracting charges respectively. The top five subcontractors of the Group during the Track Record Period have maintained business relationships with the Group for a period ranging from more than one year to more than nine years.

Set out below is a breakdown of the Group’s subcontracting charges by the Group’s top five subcontractors during the Track Record Period:

	For the year ended 31 March 2014	
	<i>HK\$'000</i>	%
Subcontractor A	12,346	15.5
Subcontractor B	10,693	13.5
Subcontractor C	8,254	10.4
Subcontractor D	4,583	5.8
Subcontractor E	<u>4,383</u>	<u>5.5</u>
Five largest subcontractors in aggregate	40,259	50.7
Other subcontractors	<u>39,215</u>	<u>49.3</u>
Total subcontracting charges	<u><u>79,474</u></u>	<u><u>100.0</u></u>
	For the year ended 31 March 2015	
	<i>HK\$'000</i>	%
Subcontractor A	20,041	36.7
Subcontractor F	4,586	8.4
Subcontractor G	4,451	8.1
Subcontractor C	4,225	7.7
Subcontractor H	<u>2,752</u>	<u>5.0</u>
Five largest subcontractors in aggregate	36,055	65.9
Other subcontractors	<u>18,578</u>	<u>34.1</u>
Total subcontracting charges	<u><u>54,633</u></u>	<u><u>100.0</u></u>

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Set out below is the background information of the Group’s top five subcontractors during the Track Record Period:

<u>Subcontractor</u>	<u>Services purchased by the Group</u>	<u>Principal business</u>	<u>Location</u>	<u>Years of business relationship</u>	<u>Typical credit terms and payment method (approximately)</u>
Subcontractor A	Installation work in relation to structural steelworks, facade and roof	Subcontractor	Hong Kong	more than 9 years	60 days upon receipt of invoices by cheque
Subcontractor B	Installation work in relation to facade	Subcontractor	Hong Kong	more than 2 years	60 days upon receipt of invoices by cheque
Subcontractor C	Installation work in relation to structural steelworks and noise barrier	Subcontractor	Hong Kong	more than 6 years	40 days upon receipt of invoices by cheque
Subcontractor D	Installation work in relation to facade	Subcontractor	Hong Kong	more than 2 years	15 days upon receipt of invoices by cheque
Subcontractor E	Installation work in relation to facade	Subcontractor	Hong Kong	more than 3 years	60 days upon receipt of invoices by cheque
Subcontractor F	Installation work in relation to facade and roof	Subcontractor	Hong Kong	more than 3 years	60 days upon receipt of invoices by cheque
Subcontractor G	Fabrication work in relation to structural steelworks	Subcontractor	Hong Kong	more than 3 years	60 days upon receipt of invoices by cheque
Subcontractor H	Installation work in relation to facade	Subcontractor	Hong Kong	more than 1 year	60 days upon receipt of invoices by cheque

Subcontractor A is a sole proprietor in Hong Kong. Subcontractor A is principally engaged in the provision of installation work in relation to structural steelworks, facade and roof works.

Subcontractor B is a private company incorporated in Hong Kong with limited liability. Subcontractor B is principally engaged in the provision of installation work in relation to facade.

Subcontractor C is a private company incorporated in Hong Kong with limited liability. Subcontractor C is principally engaged in the provision of installation work structural steelworks, facade and roof works.

Subcontractor D is a private company incorporated in Hong Kong with limited liability. Subcontractor D is principally engaged in the provision of installation work in relation to facade.

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Subcontractor E is a private company incorporated in Hong Kong with limited liability. Subcontractor E is principally engaged in the provision of installation work in relation to facade aluminum, steel and glass in Hong Kong.

Subcontractor F is a private company incorporated in Hong Kong with limited liability. Subcontractor F is principally engaged in the provision of installation work in relation to facade and roofworks.

Subcontractor G is a private company incorporated in Hong Kong with limited liability. Subcontractor G is principally engaged in the provision of fabrication work in relation to structural steelworks.

Subcontractor H is a private company incorporated in Hong Kong with limited liability. Subcontractor H is principally engaged in the provision of installation work in relation to facade.

All of the Group’s top five subcontractors during the Track Record Period are Independent Third Parties. To the best knowledge of the Directors, none of the Directors, their associates, or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company’s issued share capital upon completion of the [REDACTED]) had any interest (direct or indirect) in any of the Group’s five largest subcontractors during the Track Record Period.

Criteria for selection of subcontractors

The Group maintains an internal list of approved subcontractors where the list is updated on a continuous basis. As at the Latest Practicable Date, the Group has more than 50 approved subcontractors on its internal list of approved subcontractors. While assessing whether a subcontractor is qualified to be on the list, the Group carefully evaluates its technical capability, job reference, pricing competitiveness, labour resources and pass safety performance. In each design and build project, the Group generally selects two or above subcontractor from the approved list based on their relevant skillsets and experience to invite these chosen subcontractors to provide a quotation. The Group will then compare and analyses their quotation in several aspects, such as availability, fee quotation, proposed delivery time and other commercial and technical terms in order to select the most suitable subcontractor.

During each of the Track Record Period, the Group had engaged not less than 30 subcontractors. Hence, the Directors consider that the Group does not place any significant reliance on any single subcontractor.

Control on subcontractors

In each design and build project, the Group assigns its own personnel to be the project manager to oversee the project. The project manager carries out inspection on the work done by the subcontractors on a regular basis to ensure that the work done are in line with the structural design, as well as supervises and monitors the building process and project budget. For design and build projects with larger scale, the Group assigns its own personnel to be the site foreman to oversee the work site and subcontractors on a daily basis. The site foreman monitors the working process of the subcontractors and ensures that they have met the safety and workmanship requirements and be responsible for coordination work on the project site.

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The Group requires all of its subcontractors to follow the applicable laws and regulations in Hong Kong and all other rules and regulations adopted by the employer or the main contractor for the work site in relation to occupational health and safety and environmental protection at the work site. All of the personnel at the work site, including the Group’s own personnel and the employees of the Group’s subcontractors, are required to attend a construction industry safety training class on occupational health and safety regulations at construction site and obtaining the training certificate before entering the work site. In each design and build project, the Group’s project manager and site foreman are responsible to ensure that all of the workers for the Group’s projects at the work site are in compliance with such rules and regulations. For further information on the Group’s internal rules and regulations in relation to work quality, occupational health and safety, and environmental protection, please refer to the sections headed “Business — Quality control”, “Business — Occupational health and safety” and “Business — Environmental protection” to this [REDACTED].

Salient terms of subcontracting agreement

The Group only engages subcontractors for its design and build projects, it enters subcontracting contracts with its subcontractors on a project-by-project basis. The Directors believe that such practice is in line with the general practice within the industry. The terms of each subcontracting contracts entered by the Group with its subcontractor may vary, salient terms of a typical subcontracting contract are shown as below:

- | | | |
|-----------------|---|--|
| Scope of work | : | The scope of services and types of works to be carried out by the subcontractor are specified in the subcontracting contracts. |
| Contract sum | : | In respect of remeasurement contract, final contract sum will be determined based on agreed unit rates and measurement of quantities or work done.

In respect of lump sum fixed price contract, the whole contract sum will be agreed upon at engagement and no remeasurement will be conducted, unless there are variation orders |
| Insurance | : | All necessary insurances are covered by the Group or the Group’s customers, including employees’ compensation insurance, contractors all risk insurance and third party liability insurance. |
| Payment terms | : | For further details regarding the payment terms, please refer to the below section headed “Business — Subcontractors — Credit Policy” below. |
| Retention money | : | In general, the Group withholds 10% of each interim payment payable to its subcontractors as retention money. The accumulated retention money for each subcontracting agreement would not exceed 5% of the total contract sum. The full amount of retention money in general will be payable to the subcontractors after 6 months from the practical completion of the subcontract works. For details on the Group’s payable turnover days, please refer to the section headed “Financial Information — Trade payables analysis” to this [REDACTED]. |

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Credit policy

The Group requires its subcontractors to submit a payment application for an interim payment on a regular basis, usually on a monthly basis. The payment application generally includes the estimated value of all work properly done and material consumed, if applicable, by the Group’s subcontractors during the period covered by the payment application. Each payment application will be reviewed by the Group’s quantity surveyors and an interim payment certificate will be issued by the Group’s quantity surveyors once they verified the work properly done by the subcontractors. This process usually can be done within 1 month. The Group’s accounting team will then prepare the payment accordingly. During the Track Record Period, the Group settled payments to its subcontractor usually by cheques and within 30 to 60 days upon receipt of the payment application and interim payment certificate.

Sensitivity analysis

For reference purpose, the following table illustrates the sensitivity analysis of the estimated increase/decrease of the Group’s profit before tax in relation to general percentage changes to the prices of subcontracting charges with reference to the hypothetical fluctuation rates of 10% and 20% respectively, with all other variables being constant.

Hypothetical fluctuations in subcontracting charges	-10%	-20%	+10%	+20%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/(Decrease) in profit before tax				
Year ended 31 March 2014	7,947	15,895	(7,947)	(15,895)
Year ended 31 March 2015	5,463	10,927	(5,463)	(10,927)
Increase/(Decrease) in profit after tax				
Year ended 31 March 2014	6,636	13,272	(6,636)	(13,272)
Year ended 31 March 2015	4,562	9,124	(4,562)	(9,124)

SALES AND MARKETING

Structural engineering works

During the Track Record Period, the Group did not maintain a sales and marketing team in relation to the Group’s structural engineering works business. The majority of the new business opportunities arose from direct invitation for quotation by the Group’s customers, which the Directors consider to be attributable to the Group’s track records, relevant experiences and professional reputation in the structural engineering industry in Hong Kong.

Trading of building material products

During the Track Record Period, the Group maintained a sales and marketing team consisting of three staff through BuildMax (HK) to conduct marketing activities in relation to the Group’s trading of building material products business. The sales and marketing team of BuildMax (HK) carries out a series of business development and marketing events, including calls to potential customers and then presentations to potential customers with further details of the Group’s building material products.

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The Directors consider that good relationship with the Group’s customers is crucial to the development of the Group, such good relationship helps the Group to obtain up-to-date market trend and industry information, and to seek for potential business opportunities. The Group builds and sustains good and stable relationship with its customers by maintaining high quality in the Group’s services and products, and actively liaising with existing and potential customers on an on-going basis.

RESEARCH AND DEVELOPMENT

During the Track Record Period, the Group had not engaged in any research and development activities nor incurred any research and development expenses.

QUALITY CONTROL

Quality control on design and build projects

KPa Engineering, the Group’s operating subsidiary carrying on structural engineering business, holds the following quality management certifications:

<u>Certification</u>	<u>Original Certification Date</u>	<u>Expiry Date</u>
ISO 9001:2008	20 January 2009	19 January 2018
ISO 14001:2004	22 January 2011	21 January 2017
OHSAS 18001:2007	19 January 2011	18 January 2017

The design and build business of the Group is operated under a set of procedures that complies with the ISO 9001:2008 quality standards, ISO 14001:2004 environmental policy and OHSAS 18001:2007 standards for occupational health and safety. Each design and build project has a project manager who is responsible for the project’s overall quality assurance.

For the Group’s quality control measures over the Group’s subcontractors, please refer to the section headed “Business — Subcontractors — Control on subcontractors” to this [REDACTED].

Quality control on building material products

BuildMax (HK), the Group’s operating subsidiary which is principally engaged in the trading of building material products, holds the following quality management certifications:

<u>Certification</u>	<u>Original Certification Date</u>	<u>Expiry Date</u>
ISO 9001:2008	9 March 2011	8 March 2017
ISO 14001:2004	9 March 2011	8 March 2017
OHSAS 18001:2007	11 February 2011	10 February 2017

The building material product business of the Group is operated under a set of procedures that complies with the ISO 9001:2008 quality standards, ISO 14001:2004 environmental policy and OHSAS 18001:2007 standards for occupational health and safety. The Directors consider that the capability of

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the Group in quality assurance is evidenced by the fact that the Group had not experienced any significant product return, redelivery or material quality disputes with its customers during the Track Record Period.

HEDGING

During the Track Record Period, the Group did not engage in any hedging activity.

INTERNAL CONTROL

The Group has maintained an internal control system in respect of its organisational structure. In preparation of the [REDACTED], the Group has engaged an independent external consulting firm as the Group’s internal control adviser (the “**Internal Control Adviser**”) in March 2015 to undertake a review on the internal control system on internal control environment, risk assessment, internal control activities, information and communication, monitoring activities, financial close reporting processes, revenue and receipts, procurement and payments, cost of services and payment, bank and cash management, fixed assets management, human resources and payroll management, taxation, contract sum estimation and accounting, contract cost budgeting, provisioning, information technology general controls and compliance procedures of certain rules and regulations. The Internal Control Adviser mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its customers including listed companies and companies preparing for listing in Hong Kong.

The Internal Control Adviser has completed the first taken steps review of the internal control system in May 2015. As at the Latest Practicable Date, the Group has adopted the internal control measures and rectified the weakness in the internal control system as recommended by the Internal Control Adviser. Major internal control measures adopted by the Group are as follows:

- the Group has established various policies and procedures to governing tendering, project management, subcontracting, procurement, inventory management, finance and accounting. The policies and procedures have been circulated to all relevant staff and will be reviewed and updated by the management at least annually;
- the Group has adopted policy and procedure for total budget costs management. The analysis of total budget costs for all projects will be reviewed by the management on a quarterly basis to ensure the completeness and accuracy of revenue recognised;
- the Group has established budgeting and forecasting process in order to monitor its cashflow as well as to enhance the Company’s liquidity position. An actual and budget variance analysis will be reviewed by the senior management on a monthly basis for monitoring the cashflow;
- the Group has established policy and procedures for working capital assessment in order to fulfill the minimum financial criteria and other requirements for acceptance of public projects. The working capital assessment will be prepared by the financial controller on a monthly basis, and documented and approved by the senior management; and

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- the Group has established review and approval procedures of journal vouchers in the financial close reporting process policy. The journal vouchers will be reviewed and approved by the financial controller.

The Internal Control Adviser has completed a follow up review on the enhanced internal control measures in July 2015 and confirmed that some of weaknesses had been rectified. After considering the remedial actions and results of the reviews by the Internal Control Adviser, the Directors are of the view that these enhanced internal control measures are adequate and effective for the Group’s operations.

OCCUPATIONAL HEALTH AND SAFETY

Internal health and safety procedures

The Group has established procedures to provide its workers with a safe and healthy working environment by adopting work safety rules for employees to follow.

The Group’s occupational health and safety measures that are required to be followed by employees of the Group include, among others:

- staff are not allowed to enter a work site unless they are a corporate member of HKIE or they possess the construction industry safety training certificates (also known as the green cards); and
- staff are required to observe the occupational health and safety measures and policy of the main contractor put up at conspicuous places at the relevant work site. The Group also sponsors its engineering staff and site personnel to attend occupational health and safety courses.

The Group is usually required by its customers to arrange for the employees of the Group’s subcontractors to attend safety training courses provided by the main contractors when the works commence.

Pursuant to the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the typical agreements with the Group’s customers and/or the insurance companies, accidents and injuries involving employees of the Group and its subcontractors during their course of employment are required to be reported to the Labour Department of the Government and/or the Group’s customer and/or the insurance company in accordance with the procedures required by law or the relevant insurance policies. The Group also maintains an internal record of accidents.

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During each of the Track Record Period and up to the Latest Practicable Date, the Group recorded accidents involving (i) nil, one and one workers who were employed by the Group; and (ii) four, six and nil workers who were employed by the subcontractors of the Group respectively. The following table sets out the nature of the accidents involving the workers employed by the Group and by the subcontractors of the Group during the Track Record Period and up to the Latest Practicable Date:

Date of the accident	Nature of the accident	Identity of the injured worker	Compensation claimed	Insurance coverage	Status as at the Latest Practicable Date
					<i>(Note 1)</i>
27 June 2013	A worker alleged that his left index finger was injured when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	As the case was handled by the main contractor, the amount claimed or settled is not known.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	To the best knowledge of the Directors, the employees' compensation claim was fully settled by the main contractor.
5 July 2013	A worker alleged that the cuboid bone of his left foot was broken when he was working in Tai Po, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant main contractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the main contractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages arising from the personal injuries under common law in Hong Kong.
2 December 2013	A worker alleged that certain foreign object got into his eyes when he was working in Tai Po, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.

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<u>Date of the accident</u>	<u>Nature of the accident</u>	<u>Identity of the injured worker</u>	<u>Compensation claimed</u>	<u>Insurance coverage</u>	<u>Status as at the Latest Practicable Date</u>
					<i>(Note 1)</i>
4 January 2014	A worker alleged that his left wrist was broken when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
4 October 2014	A worker alleged that certain foreign object got into his eyes when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
13 October 2014	A worker alleged that his shoulder was injured when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
17 November 2014	A worker alleged that foreign object got into his eyes when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.

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<u>Date of the accident</u>	<u>Nature of the accident</u>	<u>Identity of the injured worker</u>	<u>Compensation claimed</u>	<u>Insurance coverage</u>	<u>Status as at the Latest Practicable Date</u>
26 November 2014	A worker of the Group alleged that his left leg was fractured when he was on his way back to Hong Kong after attending a meeting in Shenzhen, PRC	Employee of the Group	No claim had been made as at the Latest Practicable Date.	The amount covered by the insurance policy maintained by the Group is HK\$100 million.	<i>(Note 1)</i> A Notice by Employer of an Accident to an Employee Resulting in Death or Incapacity (Form 2) was filed with the Labour Department. The incident was also reported to the insurer.
6 December 2014	A worker alleged that his face and arms were injured when he was working in Tseung Kwan O, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement agreement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
14 January 2015	A worker alleged that his waist was injured when he was working in Shum Shui Po, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement with the relevant main contractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the main contractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
27 March 2015	A worker alleged that his leg was injured when he was working in Shatin, Hong Kong	Employee of the subcontractor of the Group	The injured worker had reached settlement agreement with the relevant subcontractor.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	The Directors confirmed that the injured worker had reached a full settlement with the subcontractor themselves, pursuant to which the worker had waived his right to claim for employees' compensation under the Employees' Compensation Ordinance and damages under civil proceedings.
4 June 2015	A worker alleged that his right waist, hand and leg were injured when he was working in Tseung Kwan O, Hong Kong	Employee of the Group	No claim had been made as at the Latest Practicable Date.	The Directors confirmed that since the Group was a domestic subcontractor in the relevant project, the liabilities of the Group and its subcontractors under the Employees' Compensation Ordinances were covered by the main contractor's insurance policy.	A Notice by Employer of an Accident to an Employee Resulting in Death or Incapacity (Form 2) was filed with the Labour Department

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Note

- (1) As at the Latest Practicable Date, no claims arising from personal injury under common law in Hong Kong have been made against the Group in relation to the accidents as set out in this table.

For details of the potential claims of employee’s compensation and claims of personal injury with respect to the above-mentioned incidents, please refer to the paragraph headed “Business — Litigation — Potential claims and litigation against the Group as at the Latest Practicable Date” to this [REDACTED].

Analysis on accident rate

The table below sets out the comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers between the industry average and the Group:

	Construction Industry average (Note 1)	The Group (Note 2)
Calendar year 2013		
accident rate per 1,000 workers	40.8	5.4
fatality rate per 1,000 workers	0.277	nil
Calendar year 2014		
accident rate per 1,000 workers	N/A (Note 3)	16.3
fatality rate per 1,000 workers	N/A (Note 3)	nil
Calendar year 2015 (up to 30 June 2015)		
accident rate per 1,000 workers	N/A (Note 3)	11.9
fatality rate per 1,000 workers	N/A (Note 3)	nil

Notes:

1. The figures are based on the Occupational Safety and Health Statistics Bulletin No. 14 (July 2014) published by Occupational Safety and Health Branch, Labour Department, in which the accident rate is calculated as the number of industrial accidents during the year divided by the employment size which are based on the Quarterly Report of Employment and Vacancies Statistics published by the Census and Statistics Department.
2. The Group’s accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers (consisted of the employees of the Group’s subcontractors only) in the Group’s construction sites during the year/period.
3. The relevant data has not been published as at the Latest Practicable Date.

Based on the above information, the Directors believe that, in each of the calendar year 2013, 2014 and 2015 (up to 31 June 2015), the accident rate at the Group’s construction sites was lower than the industry average in Hong Kong. Further, no fatal injury was recorded at the Group’s construction sites during the said period.

Save as disclosed in the paragraph headed “Business — Litigation” to this [REDACTED], the Directors confirm that during the Track Record Period and as at the Latest Practicable Date, the Group had fully complied, in all material aspects, with all relevant laws, rules and regulations relating to health

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and safety and that the Group has not been investigated or received any official complaints or sanctions by any relevant authorities, in respect of any violation of applicable laws or regulations in respect of health and safety.

ENVIRONMENTAL PROTECTION

The Group’s in-house rules contain measures and work procedures governing environmental protection compliance that are required to be followed by the Group’s employees. Such measures and procedures include, among others:

- Air pollution control
 - (i) Erection of hoarding along the site boundary with effective dust screens, sheeting or netting if necessary
 - (ii) Watering whenever necessary for any dusty materials before loading and unloading
 - (iii) Dusty load on vehicles to be covered by tarpaulin and vehicle washing facilities to be provided at all site exits to wash away dusty materials from vehicle body and wheels

- Noise control
 - (i) Idle equipment to be turned off as soon as possible
 - (ii) Installation of noise barriers or enclosures if appropriate
 - (iii) Use of quiet mechanical equipment and plant whenever possible

- Waste disposal
 - (i) General refuse and litter to be stored in enclosed bins or compaction units to be separated from construction or chemical waste
 - (ii) Labeled bins to be provided to allow segregation of recyclable materials whenever possible
 - (iii) Construction waste materials to be segregated into different categories such as reusable construction and demolition materials for re-use on site, and other waste for transportation to landfills

The Group generally require its subcontractors to comply with all applicable laws and regulation in Hong Kong and the rules and regulations of the relevant construction site including those relevant to environmental protection. In addition, the Group’s subcontractors are required to remove debris of their works to designated locations within the site.

The Directors confirm that the Group is usually required to remove the debris of its works to the designated locations within the site while the Group’s customers will be responsible for disposal of the debris from the work sites. Nevertheless, for each of the Track Record Period, the Group incurred insignificant expenses in relation to the compliance with applicable environmental requirements. The Group estimates that its annual cost for compliance of environmental law and regulation going forward will be at a level similar to that during the Track Record Period and consistent with the scale of the Group’s operation.

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During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of the Directors, the Group did not record any non-compliance with applicable environmental requirements that resulted in prosecution or penalty being brought against the Group.

INSURANCE

During the Track Record Period, the Group secured insurance policies as set out in the following paragraphs. The Directors consider that the existing insurance coverage is adequate and consistent with industry norm having regard to the Group’s current operations and the prevailing industry practice. The Directors confirm that no claims have been made in respect of any of the Group’s insurance policies during the Track Record Period and up to the Latest Practicable Date.

Employees’ compensation insurance

Pursuant to Section 40 of the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). The Group has taken out insurance policies in accordance with such requirement.

According to section 24 of the Employees’ Compensation Ordinance, the Group and its customers are both liable to pay compensation to any injured employees of the subcontractors who are injured in their course of employment with the subcontractors. During the Track Record Period, for those design and build projects where the Group was engaged as a domestic subcontractor, customers of the Group have taken out employees’ compensation insurance policies pursuant to section 24 of the Employees’ Compensation Ordinance covering the liabilities of the customers, the Group and its subcontractors for injuries suffered by their respective employees working at the relevant construction sites. As a result, the Group’s subcontractors’ liabilities are also insured by the customer’s insurance policy, which is also reflected in the contracts entered into between the Group and its customers. For those design and build projects where the Group was engaged as a nominated subcontractor, the Group was required under the contracts to purchase employees’ compensation insurance policies and contractors’ all risks insurance policies to cover the liabilities of the Group and its subcontractors for injuries suffered by their respective employees at the relevant construction sites.

Nevertheless, any compensation paid to the injured employees under the Employees’ Compensation Ordinance would not exempt the Group’s liabilities under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury is three years from the date of the industrial accident. On the other hand, pursuant to section 26 of the Employees’ Compensation Ordinance, the compensation paid to these injured employees under common law will be reduced by the compensation already paid to the injured employee under the Employees’ Compensation Ordinance.

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Social insurances and housing provident fund

According to the Social Insurance Law of the PRC, the Group is required to make social insurance contributions for its employees in the PRC. As at the Latest Practicable Date, the Group has maintained social insurance schemes that cover basic pension, medical, work-related injuries, unemployment and maternity expenses for its employees in the PRC. According to the Administrative Regulations on Housing Provident Funds, the Group is also required to make contributions to housing provident fund for its employees in the PRC. As advised by the PRC Legal Advisers, the Group has complied with all relevant labour laws and social insurance laws and regulations in the PRC in all material respects.

Contractors’ all risks insurance

During the Track Record Period, the Group was engaged either as a domestic subcontractor or a nominated subcontractor for its design and build projects. In the event that the Group is engaged as a domestic subcontractor, the Group’s customer or the main contractor is responsible for the contractors’ all risk insurance policies which cover the Group’s liabilities arising from potential damage to the buildings or structures under the Group’s subcontracted works as well as potential bodily injury to third parties or damage to third parties’ properties as a result of the performance of the Group’s subcontracted works. In the event that the Group is engaged as a nominated subcontractor, the Group is responsible for purchasing the contractors’ all risk insurance policies for its employees and its subcontractor’s employees.

Other insurance coverage

In addition, the Group has also secured insurance coverage against, among other matters, (i) loss, destruction or damage to the Group’s owned property caused by fire or lightning; (ii) general office risks including loss or damage to office contents and bodily injury occurring on the Group’s office premises; (iii) loss or damage to the Group’s motor vehicles and third-party liability in relation to the use of the Group’s motor vehicles; and (iv) loss or damage to the Group’s inventories stored in the Group’s warehouse in Hong Kong.

EMPLOYEES

Number of employees by function

As at each year ended 31 March during the Track Record Period and the Latest Practicable Date, the Group had a total of 56, 66 and 96 employees respectively. All of the employees of the Group are stationed in Hong Kong and the PRC.

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Set out below is the number of employees by function as at 31 March 2014 and 2015 and the Latest Practicable Date:

	<u>As at 31 March</u>		<u>As at the Latest Practicable Date</u>
	<u>2014</u>	<u>2015</u>	
Hong Kong			
Management and administration	8	9	9
Accounting, finance, marketing and procurement	9	11	12
Project management and execution (including project managers, engineering staff, quantity surveyors and foremen)	28	34	38
Structural design and drawing	<u>11</u>	<u>12</u>	<u>13</u>
Sub-Total	<u>56</u>	<u>66</u>	<u>72</u>
PRC			
Management and administration	—	—	2
Accounting, finance and procurement	—	—	2
Shop drawing	<u>—</u>	<u>—</u>	<u>20</u>
Sub-Total	<u>—</u>	<u>—</u>	<u>24</u>
Aggregate Total	<u><u>56</u></u>	<u><u>66</u></u>	<u><u>96</u></u>

Relationship with staff

The Directors consider that the Group has maintained good relationship with its employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in Hong Kong and the PRC.

The Directors confirm that the Group had not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor had the Group experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by employees.

Recruitment policies

The Group generally recruits its employees from the open market mainly through placing recruitment advertisements. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the Group’s business development.

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Training and remuneration policy

The Group entered into separate employment contracts with each of its employees in accordance with the applicable employment laws in Hong Kong and the PRC, depending on the location of work of the employee.

The remuneration package offered to the Group’s employees generally included basic salaries, bonuses and other cash allowances or subsidies. The Group determines the salary of its employees mainly based on each employee’s qualifications, relevant experience, position and seniority. The Group conducts annual review on salary increase, discretionary bonuses and promotions based on the performance of each employee.

The Group provides various types of training to its employees and sponsor its employees to attend training courses. For details, please refer to the section headed “Business — Occupational health and safety” above to this [REDACTED].

PROPERTIES

Owned properties

The following table summarises the information regarding the Group’s owned properties in Hong Kong as at the Latest Practicable Date:

<u>No.</u>	<u>Location</u>	<u>Gross floor area (approximately)</u>	<u>Usage</u>
1.	Workshop B on 3/F, Henry Centre, No. 131 Wo Yi Hop Street, Kwai Chung, New Territories	1,050 sq.ft.	For general office and operational use
2.	Workshop C on 3/F, Henry Centre, No. 131 Wo Yi Hop Street, Kwai Chung, New Territories	2,235 sq.ft.	For general office and operational use
3.	Workshop A on 4/F & Flat Roof A and Workshop B on 4/F & Flat Roof B, Henry Centre, No. 131 Wo Yi Hop Street, Kwai Chung, New Territories	3,000 sq.ft. and roof area of 1,437 sq.ft.	For general office and operational use

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No.	Location	Gross floor area (approximately)	Usage
4.	Workshop B on 7/F, Henry Centre, No. 131 Wo Yi Hop Street, Kwai Chung, New Territories	1,550 sq.ft.	For general office and operational use

As at 30 June 2015, the market value of the above properties were approximately HK\$23.2 million as assessed by Assets Appraisal Limited, an independent property valuer. For further details of the Group’s property interests, please refer to the property valuation set out in Appendix III to this [REDACTED]. For further information regarding the Group’s banking facilities, please refer to the section headed “Financial information — Indebtedness” to this [REDACTED].

Leased properties

The Group currently leases three properties in Hong Kong and the PRC and their details are set out below:

No.	Location	Gross floor area (approximately)	Term/option	Lessor	Key terms of the tenancy	Usage
<i>Hong Kong</i>						
1.	Room 2213 Asia Trade Centre 79 Lei Muk Road Kwai Chung New Territories Hong Kong	1,151 sq.ft.	From 1 November 2014 to 31 October 2016	An Independent Third Party	Monthly rental of HK\$11,500 with tenancy period up to 31 October 2016	For general office and operational use
2.	Lot No. 1881 and 1884Rp in DD. 125 Ping Ha Road Yuen Long Hong Kong	15,870 sq.ft.	From 1 September 2014 to 31 August 2017	An Independent Third Party	Monthly rental of HK\$33,000 with tenancy period up to 2 January 2016	Warehouse
<i>PRC</i>						
3.	Unit 1508, Reith International Building Luohu District Shenzhen City Guangdong Province the PRC	162.9 sq.m.	From 14 July 2015 to 31 March 2018	BuildMax (SZ)	Monthly rental of RMB16,300 with tenancy period up to 31 March 2018	For general office and operational use

During the Track Record Period, the Group had not experienced any difficulty in renewing the leases.

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INTELLECTUAL PROPERTY RIGHTS

Trademarks

As at the Latest Practicable Date, the Group had registered three trademarks in Hong Kong and applied for the registration of eight trademarks in Hong Kong and the PRC. Details of such trademarks are set out in the paragraph headed “Intellectual property rights of the Group” in Appendix V to this [REDACTED].

Domain names

As at the Latest Practicable Date, the Group had registered three domain names, being kpa-bm.com.hk, kpa.com.hk and buildmax.com.hk in Hong Kong. Details of such domain names are set out in the paragraph headed “Intellectual property rights” in Appendix V to this [REDACTED].

NON-COMPLIANCE

The Directors confirm that, save as disclosed below, the Group has complied with all applicable laws and regulations in all material respects in Hong Kong (being the principal jurisdiction in which the Group operates) during the Track Record Period and up to the Latest Practicable Date.

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Set out below are details of the Group’s non-compliance incidents in respect of its business operation during the Track Record Period:

Non-compliance with Government leases and occupation permit

Name of company	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Legal consequence including potential maximum penalties and other financial liabilities
Sun Pool	Breach of the land use conditions set out in the conditions of grant and the occupation permit of a premises located at Flat B on 3/F, Henry Centre, No. 131 Wo Yi Hop Road, Kwai Chung, New Territories (“Premises 1”), and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for failure to notify the Buildings Authority regarding the change of land use. Sun Pool, as the owner of Premises 1, had been using Premises 1 as its office since August 1992 where the user of the said premises is restricted to industrial and/or godown purposes.	The breach was not wilful, which occurred due to the absence of timely and professional advice at the material time.	<p>Application for a waiver from the Lands Department to permit office use (Group A uses under the Lands Department Practice Note No. 2/2003) for the lifetime of Premises 1 had been made by surveyors engaged by the Group for and on behalf of the Group on 23 March 2015.</p> <p>Upon notification from the Lands Department, the Group duly paid the administrative fees for the said application on 21 April 2015. The application for the said waiver was being processed by the Lands Department of the Government (the “Lands Department”) as at the Latest Practicable Date.</p> <p>Upon successful application of the waiver, a waiver fee will be payable by Sun Pool, the amount of which will be determined by the Lands Department by reference to the internal floor area of Premises 1. Once a waiver to permit office use is granted, the non-compliances with the land use conditions set out in the conditions of grant, occupation permit of Premises 1 and the deed of mutual covenant (“DMC”) will be fully rectified.</p> <p>Sun Pool received a written notification from the Lands Department on 10 July 2015 which stated that the Lands Department is prepared to recommend the Government to offer a temporary waiver (the “Waiver”) of the existing land use conditions subject to the fulfilment of two conditions by Sun Pool by 7 August 2015, i.e. (i) the Sun Pool’s payment of the waiver fee set out therein; and (ii) no objection from its mortgagee bank to the offer of the Waiver. Pursuant to the Waiver, Premises 1 can be used as, among others, headquarters or back-office operations, research design and development centres; offices for professional consultants such as architects, engineers, surveyors, planning consultants, solicitors, accountants; offices for other business services and such other uses for non-residential purposes not involving direct provision of customer services or goods to the general public, as may, from time to time, be approved by the Director of Lands. Hence, the current usage of the Premises 1 by the Group as its office would fall within the scope of the Waiver.</p> <p>A draft waiver letter setting out the terms of the Waiver is attached to the said written notification issued by the Lands Department (the “Waiver Letter 1”). The Directors confirm that the existing mortgagee bank to the Premises 1 would not object to the offer of Waiver. The Directors further confirm that it will pay the waiver fee once it has become payable in August 2015. According to the Waiver Letter 1, subject to Sun Pool’s compliance of the terms of the Waiver, the Waiver would be for the lifetime of the existing building in which the Premises 1 is situated.</p>	<p>Under section 40(2) and section 40(6) of the Buildings Ordinance, Sun Pool is liable to a maximum fine of HK\$100,000 and its directors are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum. The Hong Kong Legal Advisers opine that there is no real risk that the Group would be subject to the fine or its directors be liable to imprisonment as the Group has applied for a waiver of the land use conditions.</p> <p>According to the relevant conditions of grant, the Government is entitled to re-enter Premises 1 and claim damages against Sun Pool. If Sun Pool does not quit Premises 1 upon receiving notice of re-entry from the Government, it may also be liable to civil claim by the Government.</p> <p>For the breach of the relevant DMC, the incorporated owners or manager of the building could claim against Sun Pool for an injunction restraining the use of Premises 1 as an office by Sun Pool, which is in breach of the land use condition.</p> <p>The Hong Kong Legal Advisers opine that once the Waiver Letter 1 is issued, the non-compliance of the conditions of grant, the occupation permit of Premises 1 and the DMC will be duly rectified because the existing usage of the Premises 1 by the Group as its office would fall within the scope of usage of Premises 1 as set out in the Waiver Letter 1.</p>

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Name of company	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Legal consequence including potential maximum penalties and other financial liabilities
KPa Engineering	<p>Breach of the land use conditions set out in the conditions of grant and the occupation permit of a premises located at Flat C on 3/F and Flat A and B on 4/F, Henry Centre, No. 131 Wo Yi Hop Road, Kwai Chung, New Territories (“Premises 2”), and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for failure to notify the Buildings Authority regarding the change of land use. KPa Engineering, as the owner of Premises 2, had been using Flat C on 3/F of Premises 2 since 30 June 2009, Flat A on 4/F of Premise 2 since 15 June 1995 and Flat B on 4/F of Premises 2 since 15 July 1995 where the user of the said premises is restricted to industrial and/or godown purposes.</p>	<p>The breach was not wilful, which occurred due to the absence of timely and professional advice at the material time.</p>	<p>Application for a waiver to permit office use (Group A uses under the Lands Department Practice Note No. 2/2003) for the lifetime of Premises 2 had been made by surveyors engaged by the Group for and on its behalf on 23 March 2015.</p> <p>Upon notification from the Lands Department, the Group had duly paid the administrative fees for the said application on 21 April 2015. The application for the said waiver was being processed by the Lands Department as at the Latest Practicable Date.</p> <p>Upon successful application of the waiver, a waiver fee will be payable by KPa Engineering, the amount of which will be determined by the Lands Department by reference to the internal floors area of Premises 2. Once a waiver to permit office use is granted, the non-compliances with the land use conditions set out in the conditions of grant, the occupation permit of Premises 2 and the DMC will be fully rectified.</p> <p>KPa Engineering received a written notification from the Lands Department on 10 July 2015 which stated that the Lands Department is prepared to recommend the Government to offer the Waiver of the existing land use conditions subject to the fulfilment of two conditions by KPa Engineering by 7 August 2015, i.e. (i) the KPa Engineering’s payment of the waiver fee set out therein; and (ii) no objection from its mortgagee bank to the offer of the Waiver. Pursuant to the Waiver, Premises 2 can be used as, among others, headquarters or back-office operations, research design and development centres; offices for professional consultants such as architects, engineers, surveyors, planning consultants, solicitors, accountants; offices for other business services and such other uses for non-residential purposes not involving direct provision of customer services or goods to the general public, as may, from time to time, be approved by the Director of Lands. Hence, the current usage of the Premises 2 by the Group as its office would fall within the scope of the Waiver.</p> <p>A draft waiver letter setting out the terms of the Waiver is attached to the said written notification issued by the Lands Department (the “Waiver Letter 2”). The Directors confirm that the existing mortgagee bank to the Premises 2 would not object to the offer of Waiver. The Directors further confirm that it will pay the waiver fee once it has become payable in August 2015. According to the Waiver Letter 2, subject to KPa Engineering’s compliance of the terms of the Waiver, the Waiver would be for the lifetime of the existing building in which the Premises 2 is situated.</p>	<p>Under section 40(2) and section 40(6) of the Buildings Ordinance, KPa Engineering is liable to a maximum fine of HK\$100,000 and its directors are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum. The Hong Kong Legal Advisers opine that there is no real risk that the Group would be subject to the fine or its directors be liable to imprisonment as the Group has applied for a waiver of the land use conditions.</p> <p>According to the relevant conditions of grant, the Government is entitled to re-enter Premises 2 and claim damages against KPa Engineering. If KPa Engineering does not quit Premises 2 upon receiving notice of re-entry from the Government, it may also be liable to civil claim by the Government.</p> <p>For the breach of the relevant DMC, the incorporated owners or manager of the building could claim against KPa Engineering for an injunction restraining the use of Premises 2 as an office by KPa Engineering, which is in breach of the land use condition.</p> <p>The Hong Kong Legal Advisers opine that once the Waiver Letter 2 is issued, the non-compliance of the conditions of grant, the occupation permit of Premises 2 and the DMC will be duly rectified because the existing usage of the Premises 2 by the Group as its office would fall within the scope of usage of Premises as set out in the Waiver Letter 2.</p>

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Name of company	Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Legal consequence including potential maximum penalties and other financial liabilities
BuildMax (HK)	Breach of the land use conditions set out in the conditions of grant and the occupation permit of a premises located at Flat B on 7/F, Henry Centre, No. 131 Wo Yi Hop Road, Kwai Chung, New Territories (“Premises 3”), and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for failure to notify the Buildings Authority regarding the change of land use. BuildMax (HK), as the owner of Premises 3, had been using Premises 3 as its office since January 2010 where the user of the said premises is restricted to industrial and/or godown purposes.	The breach was not wilful, which occurred due to the absence of timely and professional advice at the material time.	<p>Application for a waiver from the Lands Department to permit office use (Group A uses under the Lands Department Practice Note No. 2/2003) for the lifetime of Premises 3 had been made by surveyors engaged by the Group for and on its behalf on 23 March 2015.</p> <p>Upon notification from the Lands Department, the Group duly paid the administrative fees for the said application on 21 April 2015. The application for the said waiver was being processed by the Lands Department as at the Latest Practicable Date.</p> <p>Upon successful application of the waiver, a waiver fee will be payable by BuildMax (HK), the amount of which will be determined by the Lands Department by reference to the internal floors area of Premises 3. Once a waiver to permit office use is granted, the non-compliances with the land use conditions set out in the conditions of grant, the occupation permit of Premises 3 and the DMC will be fully rectified.</p> <p>BuildMax (HK) received a written notification from the Lands Department on 10 July 2015 which stated that the Lands Department is prepared to recommend the Government to offer the Waiver of the existing land use conditions subject to the fulfilment of two conditions by BuildMax (HK) by 7 August 2015, i.e. (i) the BuildMax (HK)’s payment of the waiver fee set out therein; and (ii) no objection from its mortgagee bank to the offer of the Waiver. Pursuant to the Waiver, Premises 3 can be used as, among others, headquarters or back-office operations, research design and development centres; offices for professional consultants such as architects, engineers, surveyors, planning consultants, solicitors, accountants; offices for other business services and such other uses for non-residential purposes not involving direct provision of customer services or goods to the general public, as may, from to time, be approved by the Director of Lands. Hence, the current usage of the Premises 3 by the Group as its office would fall within the scope of the Waiver.</p> <p>A draft waiver letter setting out the terms of the Waiver is attached to the said written notification issued by the Lands Department (the “Waiver Letter 3”). The Directors confirm that the existing mortgagee bank to the Premises 3 would not object to the offer of Waiver. The Directors further confirm that it will pay the waiver fee once it has become payable in August 2015. According to the Waiver Letter 3, subject to BuildMax (HK)’s compliance of the terms of the Waiver, the Waiver would be for the lifetime of the existing building in which the Premises 3 is situated.</p>	<p>Under section 40(2) and section 40(6) of the Buildings Ordinance, BuildMax (HK) is liable to a maximum fine of HK\$100,000 and its directors are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum. The Hong Kong Legal Advisers opine that there is no real risk that the Group would be subject to the fine or its directors be liable to imprisonment as the Group has applied for a waiver of the land use conditions.</p> <p>According to the relevant conditions of grant, the Government is entitled to re-enter Premises 3 and claim damages against BuildMax (HK). If BuildMax (HK) does not quit Premises 3 upon receiving notice of re-entry from the Government, it may also be liable to civil claim by the Government.</p> <p>For the breach of the relevant DMC, the incorporated owners or manager of the building could claim against BuildMax (HK) for an injunction restraining the use of Premises 3 as an office by BuildMax (HK), which is in breach of the land use condition.</p> <p>The Hong Kong Legal Advisers opine that once the Waiver Letter 3 is issued, the non-compliance of the conditions of grant, the occupation permit of Premises 3 and the DMC will be duly rectified because the existing usage of the Premises 3 by the Group as its office would fall within the scope of usage of Premises as set out in the Waiver Letter 3.</p>

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Non-compliances with the Companies Ordinance

<u>Relevant section of the ordinance</u>	<u>Particulars of the non-compliance</u>	<u>Reason for the non-compliance</u>	<u>Remedial action</u>	<u>Legal consequence including potential maximum penalties and other financial liabilities</u>
Non-compliance with section 111 of the Predecessor Companies Ordinance (corresponding to sections 576, 610 and 612 of the Companies Ordinance).	Sun Pool has failed to hold a general meeting as its annual general meeting within 15 months after the date of its previous annual general meeting for the financial year ended 31 March 2012.	The omission was not wilful and was due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters and the absence of timely and professional advice at the material time.	Sun Pool had subsequently held the annual general meetings albeit outside the prescribed period.	<p>The directors of Sun Pool who were in default of section 111 of the Predecessor Companies Ordinance shall be liable to a fine of HK\$50,000 and, for continued default, to a daily default fee.</p> <p>Upon reviewing the recent judgements pronounced by the High Court of Hong Kong, pursuant to the advice of the Hong Kong Legal Advisers, the Directors believe that the Court is likely to dismiss the application to rectify and the prosecution under section 111 of the Predecessor Companies Ordinance is remote.</p>
Non-compliance with section 122 of the Predecessor Companies Ordinance (corresponding to sections 431 of the Companies Ordinance).	<p>Sun Pool has failed to lay before its annual general meeting its audited financial statements for the financial years ended 31 March 2012, 2013 and 2014 respectively within nine months from the respective financial year-end date.</p> <p>BuildMax (HK) has failed to lay before its annual general meeting its audited financial statements for the financial year ended 31 March 2012 within nine months from the respective financial year-end date.</p>	The omission was not wilful and due to the inadvertent oversight of the administrative staff responsible for supervision on secretarial matters and the absence of timely and professional advice at the material time.	The audited accounts were laid before the annual general meetings subsequently held.	<p>The directors of Sun Pool and BuildMax (HK) who were in default of section 122 of the Predecessor Companies Ordinance shall be liable to a maximum penalty of HK\$300,000 and a maximum imprisonment for 12 months.</p> <p>Upon reviewing the recent judgements pronounced by the High Court of Hong Kong, pursuant to the advice of the Hong Kong Legal Advisers, the Directors believe that the Court is likely to dismiss the application to rectify and the prosecution under section 122 of the Predecessor Companies Ordinance is remote.</p>

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As at the Latest Practicable Date, there had not been any prosecution initiated against the Group or the then or current Directors, nor had any of them been subject to any re-entry notice or fine relating to the above non-compliances. Pursuant to the advice of the Hong Kong Legal Advisers, the Directors believe that the likelihood of the Group being penalized is remote and therefore the aforementioned non-compliances shall not have any material impact on the operations or financial position of the Group. As a result, the Group has not made provision in the Group’s financial statement in respect of the liabilities, if any, arising from the non-compliance of the Predecessor Companies Ordinance in respect of the potential fine for the above disclosed non-compliance incidents. In relation to the non-compliance incidents of the Companies Ordinance, the Group has designated Mr. Chan Sun Kwong, the company secretary of the Company, and Mr. Chan Ngai Fan, the financial controller of the Group, to monitor the requirements pursuant to the Companies Ordinance and will also seek assistance from the external legal advisers if necessary in order to ensure full compliance with the statutory requirements in the future. In light of the foregoing, the Directors are of the view, and the Sponsor concurs with their view, that the Group has adequate policies and procedures in place to prevent further occurrence of the above non-compliance relating to the Companies Ordinance by the Group in the future. To further mitigate the risk of being penalised for the above disclosed non-compliance incidents, the Controlling Shareholders have undertaken to indemnify the Group for any loss arising from such non-compliance incidents pursuant to the Deed of Indemnity. Please refer to the paragraph headed “E. Other Information — 14. Tax and other indemnities” in Appendix V to this [REDACTED].

LITIGATION

Set out below is a summary of the litigation and arbitration proceedings against the Group which took place during the Track Record Period and up to the Latest Practicable Date:

Completed legal proceeding during the Track Record Period

Legal action against KPa Engineering and others

On 29 November 2012, a subcontractor commenced a legal action in the District Court of HKSAR against KPa Engineering and another contractor for an indemnity and/or contribution in respect of the Employees’ Compensation which it had paid to its employee arising out of an accident that happened at a construction site, of which KPa Engineering and the other contractor were the occupiers. The case was taken up by the insurance company. On 13 November 2013, a consent order was filed, pursuant to which KPa Engineering and the other contractor were ordered to pay the sum of approximately HK\$0.4 million for full and final settlement of the proceeding and KPa Engineering was discharged from all further liability in respect of the said accident upon the payment. The Directors confirmed that the sum payable by KPa Engineering was paid by the insurer.

Contractual dispute against KPa Engineering

On 28 May 2013, a subcontractor engaged by KPa Engineering to carry out construction works in Tseung Kwan O commenced a legal action in the High Court of HKSAR against KPa Engineering. In the said legal action, the parties could not agree on the value of the works completed, additional works and variations works completed. As a result, the final contract sum of the construction works was in dispute. The proceeding was later transferred to the District Court of the HKSAR upon the payment of approximately HK\$0.2 million by KPa Engineering to the subcontractor as part payment of the balance

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sum claimed that was due and outstanding. On 19 February 2014, a consent order was filed, according to which KPa Engineering paid the sum of approximately HK\$0.3 million to the said subcontractor on 20 February 2014 for full and final settlement of the said proceeding.

Ongoing legal proceeding as at the Latest Practicable Date

Employee’s compensation claim and personal injury claim against KPa Engineering and others

An employee of KPa Engineering’s subcontractor alleged that he had suffered multiple injuries including ring finger fracture, lumber spine fracture and elbow fracture when he was working at a construction site in Deep Water Bay. On 24 August 2012, he made an application to the District Court of HKSAR under the Employees’ Compensation Ordinance against KPa Engineering and other contractors for, *inter alia*, compensation under sections 9, 10 and 10A of the Employees’ Compensation Ordinance and to appeal under section 18 of the Employees’ Compensation Ordinance against Form 9 issued by Employees’ Compensation (Ordinary Assessment) Board. Further, on 28 January 2014, he made an application to the District Court of HKSAR under common law for damages arising from the personal injuries suffered by him. Since the two claims had been subrogated to the relevant insurer, the legal actions are being handled by the lawyers appointed by the relevant insurer, the Group is not in a position to assess the likely quantum of such potential claims. The Directors confirmed that the insurance cover maintained by the Group in relation to the industrial accident happened to this employee would be sufficient to cover all the liabilities in these legal proceeding.

Legal actions among HKSAR and KPa Engineering and others

On 15 October 2013, the Labour Department alleged that KPa Engineering, as a subcontractor who was responsible for a construction site in Shum Shui Po, has failed to take adequate steps to prevent a worker from falling from a height of 2 metres or more when he was working on the bamboo scaffold at the external wall of the building under construction in the said location. On 8 April 2014, KPa Engineering, together with the main contractor, were summoned to defense to the Magistrates’ Court of HKSAR against the alleged contraventions of Regulations 38B(1A), 68(1)(a) and 68(2)(g) under the Construction Sites (Safety) Regulation made under the Factories and Industrial Undertakings Ordinance. On 4 November 2014, the Group was held guilty and imposed a fine in the sum of HK\$11,000.00. The Group disagreed with the judgment and subsequently filed a notice of appeal on 11 November 2014 against the judgment. The Directors are of the opinion that there is no material financial impact to the Group as the penalty has been paid already. As at the Latest Practicable Date, the appeal proceeding was still ongoing in the Court of Appeal of HKSAR.

Potential claims and litigation against the Group as at the Latest Practicable Date

The Directors confirmed that a total of 12 workers were injured in their course of work with the Group in Hong Kong during the Track Record Period and up to the Latest Practicable Date, two of them were the employees of the Group and ten of them were the employees of the subcontractors of the Group. One of the workers was injured outside the construction site.

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As at the Latest Practicable date, out of these twelve injured workers:

With respect to the two injured workers who are the employees of the Group

- (i) two of them have not yet filed or made any application to any court in Hong Kong for either employee’s compensation or for damages arising from personal injuries under common law in Hong Kong as at the Latest Practicable Date. As the limitation period to make a claim under the Employees’ Compensation Ordinance (i.e. 24 months from the date of the accidents pursuant to the said ordinance) and under common law for personal injury (i.e. 36 months from the date of the accidents pursuant to the Limitation Ordinance) had not yet expired as at the Latest Practicable Date, these two injured workers are entitled to make the aforesaid claims against the Company.

With respect to the ten injured workers who are the employees of the subcontractors of the Group

- (i) nine of them had reached settlement with the subcontractors, pursuant to which these injured workers had waived their right to claim for employees’ compensation under the Employees’ Compensation Ordinance and damages under civil proceedings.
- (ii) one of them had reached settlement with the relevant insurers upon their receipt of compensation under the Employees’ Compensation Ordinance. However, the said compensation does not exempt the liabilities of the Group under common law, and hence the injured worker is still entitled to claim against the Group under common law in Hong Kong for damages arising from the personal injuries within a limitation period of three years from the date of the relevant accident pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). However, such claim should be covered by the main contractor’s insurance. The said limitation period had not expired yet as at the Latest Practicable Date. Should the potential claim materialize, pursuant to section 26 of the Employee’s Compensation Ordinance, the damages payable to such injured worker under common law would be reduced by the compensation already paid to him under the Employees’ Compensation Ordinance. Nevertheless, the Directors confirmed that the Group’s liabilities under common law would be sufficiently covered by the main contractor’s insurance.

With respect to the above-mentioned potential claims against the Group, since no filing or application has yet been made to any court in Hong Kong against the Group for either employee’s compensation and/or for damages arising from personal injuries under common law in Hong Kong as at the Latest Practicable Date and such claims, when being filed, will be subrogated to the insurer and handled by lawyers appointed by the relevant insurers of the Group (with respect to the Group’s employee who had suffered injury outside the construction site) or the insurers of the main contractors of the Group (with respect to the workers who had suffered injuries at the construction site), hence the Directors are not in the position to assess the likely quantum of such potential claims. In any event, all such potential claims are expected to be fully covered by the insurance either maintained by the Group or by the main contractors, as the case may be. As at the Latest Practicable Date, the Directors confirmed that these insurance policies are valid and subsisting and the respective insurers have been notified of the above-mentioned incidents.

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Save as disclosed under the paragraph headed “Business - Litigation”, no member of the Group or any of the Directors was engaged or involved in any claim, litigation, arbitration, bankruptcy or receivership proceedings which is of material importance to the Group during the Track Record Period and up to the Latest Practicable Date. Save for those potential claims set out above, no member of the Group or any of the Directors is threatened by any potential claim, litigation, arbitration, bankruptcy or receivership proceeding, which is of material importance, during the Track Record Period and as at the Latest Practicable Date.