

## 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 was 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

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	
	HK\$'000	%	HK\$'000	%
Hong Kong	204,640	99.7	196,530	99.5
Others ( <i>Note</i> )	645	0.3	905	0.5
	205,285	100.0	197,435	100.0

*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. During 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 the major revenue contributing works 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
<b>Revenue</b>		
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 section headed “Summary — Recent development subsequent to the Track Record Period” 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. During the Track Record Period, the Group’s revenue generated by trading of building material 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 section headed “Business — Services and products — Trading of building material products” to this [REDACTED] 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 section headed “Regulatory overview — Development Bureau projects” to this [REDACTED] 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” to 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 was 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	5,743	2.8	13,522	6.8
	<u>205,285</u>	<u>100.0</u>	<u>197,435</u>	<u>100.0</u>

### 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	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
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
	<u>199,542</u>	<u>100.0</u>	<u>183,913</u>	<u>100.0</u>

*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 the major revenue contributing works 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 onsite.

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 section headed “Business — Licences and permits” to this [REDACTED] for further details.

### *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 section 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 any structural calculation and are carried out by BuildMax (HK).

***Projects awarded during the Track Record Period***

During 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:

	<b>For the year ended 31 March</b>	
	<b>2014</b>	<b>2015</b>
	<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***

During 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:

	<b>For the year ended 31 March</b>			
	<b>2014</b>		<b>2015</b>	
	<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 the major revenue contributing works 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:

<b>Contract Sum</b>	<b>Number of projects completed for the year ended 31 March</b>	
	<b>2014</b>	<b>2015</b>
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 build projects completed by the Group during the Track Record Period in descending order by contract sum:

<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>
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 section headed “Business — Operating procedures — Design and build projects” to this [REDACTED] for further details.

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During 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 galvanised 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. For the two years ended 31 March 2015, the sales of a German brand product accounted for approximately 36.3% and 22.0% of the Group’s revenue generated from trading of building material products respectively. Save and except the aforesaid, there was no particular brand of products accounted for 30% or more of the Group’s revenue generated from trading of building material products during the Track Record Period. As such, the Directors consider that the Group’s trading business was not reliant on any particular brand of products.

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 section headed “Business — Operating procedures — Trading of building material products” to this [REDACTED].




According to the Directors and the IPSOS Report, the increasing awareness of controlling noise pollution and the related legislation for the management of noise pollution has led to the construction of an increasing number of noise barriers in Hong Kong. As such, the Directors are of the view that there will be an increase in the demand for noise barriers in response to an increasing level of environmental concerns. Over the years of various noise barrier projects completed by the Group, the Group has accumulated extensive understanding of market awareness, industry and product know-how. To this end, leveraging on the Group’s track record and experience in both structural engineering works and trading of building material products, the Group designed and developed a series of noise barrier materials under its own brand names. The Group’s structural design and drawing team was responsible for devising the products design in accordance with the guidelines on design of noise barriers published by Highways Department. Such team was led by Mr. Lui and Mr. Wai, both of them are executive Directors and have not less than 25 years of experience in the structural engineering and construction industry. For biographical details of Mr. Lui and Mr. Wai, please refer to the section headed “Directors and senior management — Directors — Executive Directors” to this [REDACTED]. These noise barrier products did not contribute any revenue during the Track Record Period since they were first introduced

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in late 2014 and the Group has not yet concluded any sale of these products during the Track Record Period. Since the Group does not have the requisite production facilities to produce internally, except for deriving the product designs, the Group will outsource the production processes of its noise barrier materials, such as acrylic (PMMA) sheet and aluminum acoustic panel and the fabrication processes, to external product suppliers. It is the business strategy of the Group to sell its noise barrier material to the customers from design and build projects and its trading business. The Group will actively market its noise barrier materials through various marketing channels, such as identifying and approaching potential customers. 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 section 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:

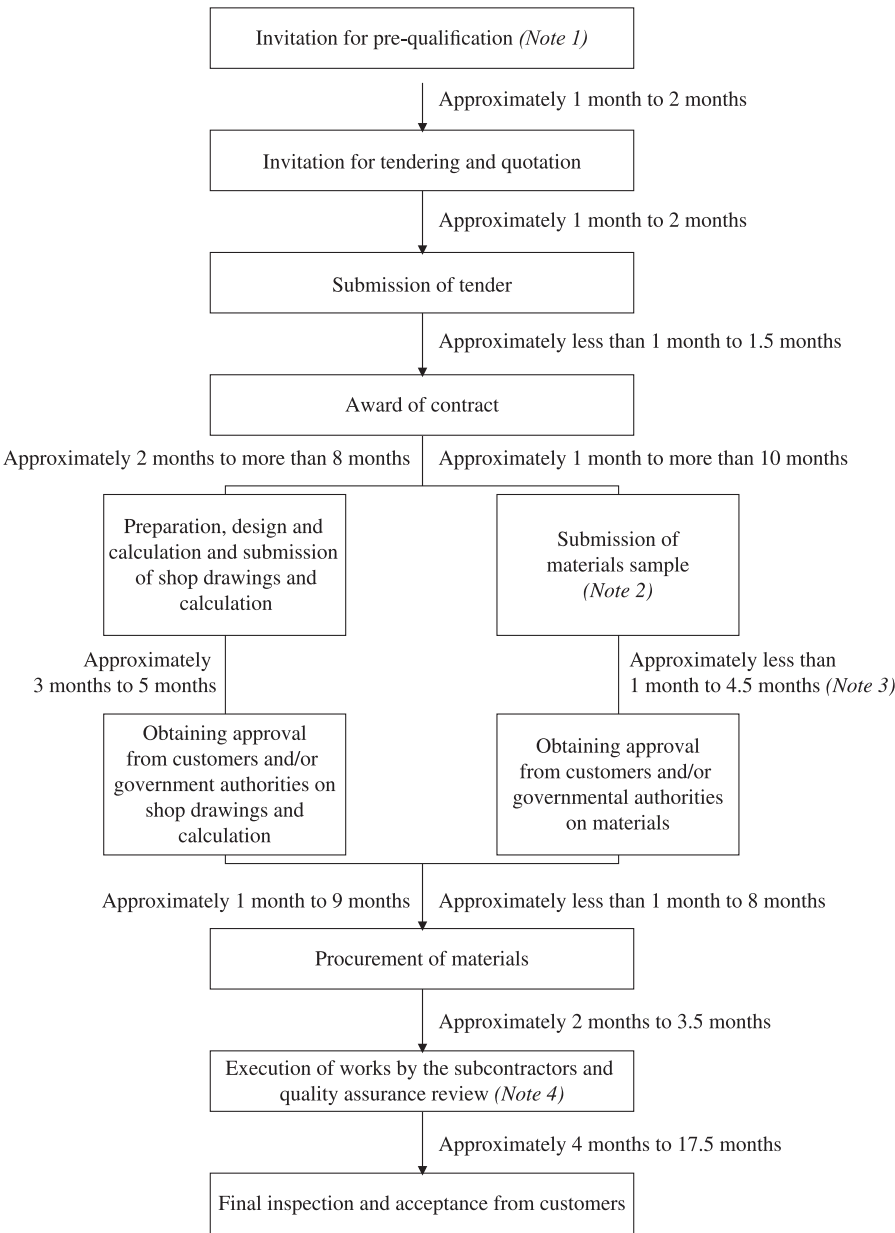
<u>Trademark</u>	<u>Product description</u>
	AcouGlas is a cast acrylic sheet made of Polymethyl Methacrylate (PMMA), which passed the tests conducted by an independent accredited acoustics laboratory and complies with the international standard BS EN 1793-2:1998 “Road traffic noise reducing devices — 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”.

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**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 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 the 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 section headed “Business — Customers — General terms of construction contracts” to this [REDACTED].

### *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 technician, 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 23 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 onsite 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 section headed “Business — Subcontractors” to this [REDACTED] 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.

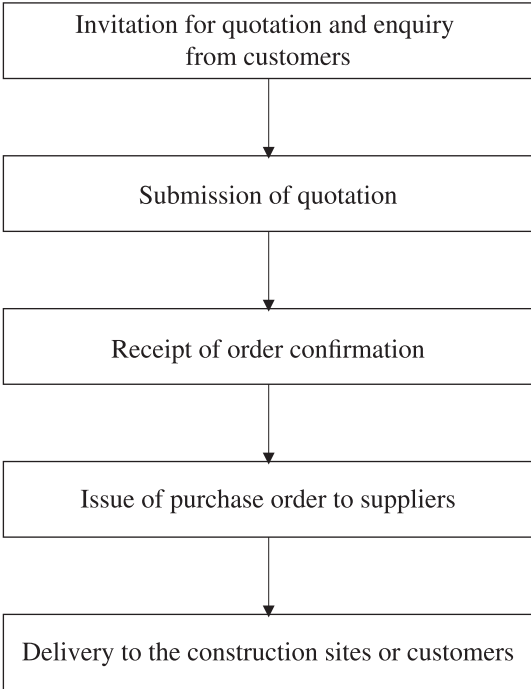
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**BUSINESS**

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**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.

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### *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:

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

### *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 section headed “Business — Suppliers — Salient purchase terms” to this [REDACTED].

### *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 section headed “Business — Customers — General terms of order confirmation” to this [REDACTED].

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## BUSINESS

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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 (Classes II and III) <i>(Note 2)</i>	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.
2. Class II comprises those of comparatively lower complexity and risk to safety while Class III mainly includes common household minor works. KPa Engineering is registered under Classes II and III for carrying out different types of minor works, including Type A (Alteration & Addition Works) minor works, Type C (Works relating to Signboards) minor works and Type F (Finishes works) minor works. Please refer to the section headed “Regulatory overview” to this [REDACTED] for further details.

## **BUSINESS**

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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 (Classes 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 Building 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.

In order to build up a pool of capable and responsible subcontractors with specialised 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 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.



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## BUSINESS

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### Top five customers

During 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.

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
<b>Five largest customers in aggregate</b>	166,248	81.0
All other customers	39,037	19.0
<b>Total revenue</b>	<b>205,285</b>	<b>100.0</b>
	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
<b>Five largest customers in aggregate</b>	149,542	75.7
All other customers	47,893	24.3
<b>Total revenue</b>	<b>197,435</b>	<b>100.0</b>

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.

**THIS DOCUMENT IS IN DRAFT FORM. The information contained herein is incomplete and is subject to change. This document must be read in conjunction with the section headed “Warning” on the cover of this document.**

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## BUSINESS

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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

## **BUSINESS**

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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 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\$9.3 billion and a net loss of approximately HK\$7.9 million for the year ended 31 March 2015, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$2.1 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 2015 annual report of Customer B’s parent company, its revenue and net profit were approximately HK\$780.9 million and approximately HK\$53.4 million for the year ended 31 March 2015, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$1.0 billion 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\$34.4 billion and approximately HK\$3.4 billion for the year ended 31 December 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$46.1 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 RMB366.0 billion and approximately RMB13.9 billion for the year ended 31 December 2014, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$45.0 billion as at the Latest Practicable Date.

Customer E is a private company incorporated in Hong Kong in 1996. It is a Buildings 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 2015 annual report of Customer F’s parent company, its revenue and net profit were approximately HK\$8.3 billion and approximately HK\$103.3 million for the year ended 31 March 2015, respectively. Its market capitalisation on the Stock Exchange was approximately HK\$2.1 billion as at the Latest Practicable Date.

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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 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\$291.8 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\$19.8 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 related 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 as required by the customer for higher standard of the construction materials.

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(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.

In order to minimise the losses incurred by the Group in the aforesaid loss-making projects, the Group had adopted the following remediation measures during the course of project implementation: (i) to review the implementation method of the works with the customers so as to speed up the work progress; and (ii) to consolidate the deliveries orders and hence reduce the logistics costs; and (iii) to rearrange the staff involved in the project to reduce manpower resources; and (iv) to closely supervise and remind the subcontractors to catch up with the work progress in accordance with the project schedule.

Save as disclosed above, the Group did not have any other material loss-making projects, whether due to reason of cost overruns or not, during the Track Record Period and up to the Latest Practicable Date.

The actual amount of total costs incurred in completing a project may be adversely affected by many factors, such as adverse weather conditions, accidents, unforeseen site conditions and fluctuations in the price of raw materials. In order to minimise the cost overruns and losses suffered by the Group in the project, the Group had also adopted the following cost control measures during the Track Record Period: (i) the procurement department will obtain preliminary quotations from the suppliers and sub-contractors in order to have a more accurate estimation for the project to be involved; (ii) based on the details of tender specifications and the complexity of the works, a detailed estimate of time and costs expected to be incurred in the project will be prepared by the project manager and generally will be reviewed by the executive Director before submitting tender to the customer; (iii) a fixed scope of works is to be agreed with customers, based on which the Group’s tender is prepared. Customers’ requests for variation in the scope of work are to be accepted on the basis that a variation order is agreed upon; and (iv) during the course of project implementation, the project manager will regularly liaise with customers and sub-contractors so as to monitor and control the work progress of the subcontractors and the project budget.

The Directors believe that the effective cost control measures are the key to achieve the Group’s competitive advantage as well as to enhance the Group’s profitability. In this connection, the Group has implemented the following additional measure as recommended by the Internal Control Adviser to manage the potential risk of project cost overruns since July 2015:

“an actual-to-budget cost variance report will be prepared by the project manager and reported to the Directors and the financial controller of the Group on a monthly basis in order to monitor the actual expenses and budget cost for each project so as to determine any cost overruns as soon as practicable. Should the cost incurred is over the cost target, the approval of revision to budget cost is required from one of the executive Directors in order to control the cost target of the project. The financial controller of the Group has also to check the calculation of revision to budget cost. To approve the revisions to budget cost, such revisions shall also (i) identify the causes of the increase in cost of the project; and (ii) set out the measures to be taken to control the cost of the

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project. Causes of increase in cost of a project may include, among others, revision of project schedule by the customer, or delay in the work progress of subcontractors. Measures to be taken may include, as the case may be, the remediation measures as aforementioned.”

“Before the tender is reviewed by the executive Director, the quantity surveyors (which have been appointed by the Group since May 2015 and June 2015 respectively) will review the cost budget prepared by the project manager and the financial controller of the Group (which has been appointed by the Group since May 2015) will also review the tender and check all estimation and calculation.”

Notwithstanding the Group recorded three loss-making projects during the Track Record Period, taking into account the facts that (i) the special requests for the construction material replacement by the customer of Project B exceed the terms as set out in the project contract. However, the Group agreed to waive the additional costs incurred with a view to maintain a business relationship with it in a long run. Project B was therefore in an exceptional circumstance; (ii) Projects A and C recorded losses were mainly due to the underestimation of time and costs involved in the projects, and the estimation was not reviewed by the quantity surveyors and the financial controller of the Group; (iii) in addition to the past control measures, the Group has subsequently reinforced the enhanced cost control measure recommended by the Internal Control Adviser since July 2015, including but not limited to the additional review by the quantity surveyors and financial controller of the Group before the submission of tender and implementation of actual-to-budget variance report on a monthly basis to identify any possible cost overruns in earlier stage so as to take any remedial action as early as possible; (iv) the Internal Control Adviser has completed the follow up review on the enhanced cost control measure in August 2015 and there were no findings of material weakness in such area; the Directors are of the view, and the Sponsor concurs, that the Group’s measures to manage the potential risk of cost overruns are adequate and effective for its current operation.

### ***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.

### **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 contracts 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 onsite and the Group will be paid based on works done. Other than remeasurement contracts 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

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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 section headed “Business — Subcontractors” to this [REDACTED].
  
- 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.
  
- 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.

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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 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.



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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**

During 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 section headed “Risk factors — 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” to this [REDACTED] for the customer concentration risk.

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;

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- (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 seven new 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\$108.2 million; and
- (iv) as at the Latest Practicable Date, the remaining contract sum (excluding the variation orders) with Customer C was approximately HK\$16.4 million, representing approximately 15.2% 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 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 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	
	HK\$'000	%
BuildMax (SZ)	14,514	19.9
Shenzhen Hengyayuan	10,288	14.1
Supplier C	4,745	6.5
Supplier D	3,733	5.1
Supplier E	3,437	4.7
<b>Five largest suppliers in aggregate</b>	36,717	50.3
Other suppliers	36,035	49.7
<b>Total material and processing charges</b>	<b>72,752</b>	<b>100.0</b>
	For the year ended 31 March 2015	
	HK\$'000	%
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 Hengyayuan	3,864	5.3
<b>Five largest suppliers in aggregate</b>	39,787	54.9
Other suppliers	32,706	45.1
<b>Total material and processing charges</b>	<b>72,493</b>	<b>100.0</b>

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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 Hengyaoyuan	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 Hengyaoyuan. 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 section headed “Connected transactions — Non-exempt continuing connected transactions” to this [REDACTED].

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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.

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.

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**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 section headed “Business — Suppliers — Credit policy” to this [REDACTED].
- 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.

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### 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.

<b>Hypothetical fluctuations in material and processing charges</b>	<b>-10%</b>	<b>-20%</b>	<b>+10%</b>	<b>+20%</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Increase/(Decrease) in profit before tax</b>				
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)
<b>Increase/(Decrease) in profit after tax</b>				
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)

### 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:

	<b>As at 31 March</b>	
	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and supplies	<u>2,547</u>	<u>3,309</u>

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].

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### 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:

	<b>For the year ended 31 March</b>	
	<b>2014</b>	<b>2015</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
Subcontracting charges	79,474	54,633

#### Top five subcontractors

During 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:

	<b>For the year ended 31 March 2014</b>	
	<i>HK\$’000</i>	<i>%</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	4,383	5.5
<b>Five largest subcontractors in aggregate</b>	40,259	50.7
Other subcontractors	39,215	49.3
<b>Total subcontracting charges</b>	<b>79,474</b>	<b>100.0</b>



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	<b>For the year ended 31 March 2015</b>	
	<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	2,752	5.0
<b>Five largest subcontractors in aggregate</b>	36,055	65.9
Other subcontractors	18,578	34.1
<b>Total subcontracting charges</b>	<b>54,633</b>	<b>100.0</b>

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

<b>Subcontractor</b>	<b>Services purchased by the Group</b>	<b>Principal business</b>	<b>Location</b>	<b>Years of business relationship</b>	<b>Typical credit terms and payment method (<i>approximately</i>)</b>
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

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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.

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 more subcontractors 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 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.

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**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.

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.

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- Payment terms : For further details regarding the payment terms, please refer to the the section headed “Business — Subcontractors — Credit policy” to this [REDACTED].
- 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].

### 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.

<b>Hypothetical fluctuations in subcontracting charges</b>	<b>-10%</b>	<b>-20%</b>	<b>+10%</b>	<b>+20%</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Increase/(Decrease) in profit before tax</b>				
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)
<b>Increase/(Decrease) in profit after tax</b>				
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)

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### 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.

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.

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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 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.

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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 monthly 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. The financial controller of the Group is responsible for preparing the monthly cash flow forecast report which sets out the short-term receivable forecast, amounts of trade and other payables by aging, and outstanding and available balance of banking facilities. An actual and budget variance analysis will be reviewed by the senior management of the Group on a monthly basis for monitoring the cash inflow and outflow. This monthly report will assist the Directors to forecast significant cash flow shortfall in advance and make necessary business decision to mitigate the shortfall in a timely manner;
- 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
- 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 follow up reviews on the enhanced internal control measures in July and August 2015 and confirmed that all of weaknesses had been rectified. Taking into account the facts that (i) there were no findings of material weakness or materials insufficiency in the Group’s enhanced internal control system after the follow up reviews by the Internal Control Adviser; and (ii) the Group has properly implemented the enhanced internal control measures recommended by the Internal Control Adviser, the Directors are of the view that the enhanced internal control measures are adequate and effective for the Group’s operations. The Sponsor has reviewed the internal control and follow-up reports prepared by the Internal Control Adviser, discussed with the Internal Control Adviser on the design effectiveness of the enhanced internal control measures and concurred with the Directors’ view that the Company’s enhanced internal control measures could sufficiently and effectively ensure a proper internal control system of the Group.

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### 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.

During 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 one 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:

<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>
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.	<i>(Note 1)</i> To the best knowledge of the Directors, the employees’ compensation claim was fully settled by the main contractor.



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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>
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 under civil proceedings.
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.
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.

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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>
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 a 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.
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.	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.

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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>					
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.
4 August 2015	A worker alleged that his left ribs were fractured and his left elbow was broken when he was working in Sheung Shui, Hong Kong	Employee of the subcontractor 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.	The incident had been reported to the main contractor.

*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.

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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 section headed “Business — Litigation — Potential claims and litigation against the Group as at the Latest Practicable Date” to this [REDACTED].

### **Additional safety measures adopted by the Group**

The Group has adopted the following preventive measures to further reduce the risk of accidents in relation to work safety:

- (i) the Group has engaged an external safety adviser to carry out site safety inspection on a monthly basis. During the site safety inspection, a checklist setting out safety requirements will be gone through by the safety officer. Photos will also be taken during the site safety inspection for record purposes. The safety officer is responsible for reviewing the Group’s current construction site safety policy and procedures and giving suggestions for improvement. The safety inspection report will be provided to the Group within two days after such site inspection;
- (ii) the Group has arranged the external safety adviser to provide various types of trainings to its employees and subcontractors on work safety, which cover the updates on the recommendations of the Labour Department, to enhance their knowledge and enable to keep them abreast of any development on the relevant laws, rules and regulations relating to safety; and
- (iii) the Group has assigned the project manager to be responsible for reminding all the site staff from time to time on the importance of site safety and to reinforce the importance of the Group’s site safety and health procedures. Site inspections and visits will be conducted periodically to ensure the compliance with statutory provision by the Group’s employees and its subcontractors’ employees.

As confirmed by the Directors, save for the aforesaid 13 accidents which had not resulted in severe injuries to the workers, there has been no accident which had resulted in any death or severe bodily injury to the Group’s employees or its subcontractors’ employees during the Track Record Period and up to the Latest Practicable Date.

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### 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:

	<b>Construction Industry average (Note 1)</b>	<b>The Group (Note 2)</b>
<b>Calendar year 2013</b>		
accident rate per 1,000 workers	40.8	5.4
fatality rate per 1,000 workers	0.277	nil
<b>Calendar year 2014</b>		
accident rate per 1,000 workers	41.9	16.3
fatality rate per 1,000 workers	0.242	nil
<b>Calendar year 2015 (up to 31 August 2015)</b>		
accident rate per 1,000 workers	N/A (Note 3)	9.2
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. 15 (August 2015) 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.

The Directors believe that the increase in the accident rate at the Group’s construction site in the calendar year 2014 and up to 31 August 2015 was primarily due to the following reasons:

- (i) all accidents involving the Group in the calendar year 2014 happened at one construction site at Tseung Kwan O where the Group was engaged as a subcontractor to provide structural engineering works for a design and build project, which had commenced in early 2014 (for further details of the accidents involving the workers employed by the Group and by the subcontractors of the Group during the Track Record Period, please refer to the section headed “Business — Occupational health and safety” to this [REDACTED]). Taking into account the facts that (a) all reported injured workers in these accidents in the calendar year 2014 were employees of a subcontractor of the Group whereby such subcontractor of the Group shall have a primary duty to ensure the work safety of its workers; (b) as a subcontractor in the construction site, the Group had already adopted a series of safety measures as set out in the following paragraphs to ensure the work safety of the workers in carrying out the relevant subcontracted structural engineering works; and (c) the main contractor of the said project has the overarching duty for the site management including its work safety and for maintaining sufficient all risk insurance policy and employees’ compensation insurance for both its employees and the employees of its subcontractors (including the Group and the Group’s subcontractors), the Directors are of the view that the Group had already reasonably discharged its duties regarding the safety control at the said construction site for carrying out the subcontracted structural engineering works at the material times; and
- (ii) the current reported accident rate in 2015 does not represent the final accident rate for the entire calendar year 2015, as all the relevant figures were calculated up to 31 August 2015 only. As a result, the final accident rate for the calendar year 2015 would vary.

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In any event, based on the available figures and after considering the historical accident rates in the construction industry, the Directors take the view that the accident rate at the Group’s construction sites was lower than the industry average in Hong Kong for each of the calendar year 2013, 2014 and up to 31 August 2015.

3. The relevant data has not been published as at the Latest Practicable Date.

Based on the available information and after considering the historical accident rates in the construction industry, the Directors believe that, in each of the calendar year 2013, 2014 and 2015 (up to 31 August 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 section 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 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   |

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|----------------|--|
| 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, during 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.

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.

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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 has 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.

### **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.



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### 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 inventory 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 97 employees respectively. All of the employees of the Group are stationed in Hong Kong and the PRC.

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

	As at 31 March		As at the Latest Practicable Date
	2014	2015	
<b>Hong Kong</b>			
Management and administration	8	9	8
Accounting, finance, marketing and procurement	9	11	10
Project management and execution (including project managers, engineering staff, quantity surveyors and foremen)	28	34	40
Structural design and drawing	11	12	12
<b>Sub-Total</b>	<u>56</u>	<u>66</u>	<u>70</u>
<b>PRC</b>			
Management and administration	—	—	2
Accounting, finance and procurement	—	—	2
Shop drawing	—	—	23
<b>Sub-Total</b>	<u>—</u>	<u>—</u>	<u>27</u>
<b>Aggregate Total</b>	<u><u>56</u></u>	<u><u>66</u></u>	<u><u>97</u></u>

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### **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.

### **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].

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### 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 Road, 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 Road, 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 Road, Kwai Chung, New Territories	3,000 sq.ft. and roof area of 1,437 sq.ft.	For general office and operational use
4.	Workshop B on 7/F, Henry Centre, No. 131 Wo Yi Hop Road, 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].

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### 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 ( <i>approximately</i> )	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 2 January 2016	An Independent Third Party	Monthly rental of HK\$33,000 with tenancy period up to 2 January 2016	Open storage of goods
<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.

### 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 section headed “Intellectual property rights of the Group” as set out 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 section headed “Intellectual property rights” as set out in Appendix V to this [REDACTED].

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### 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.

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

#### Possible non-compliance of Government lease 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	Measures to prevent any future breaches and ensure on-going compliance
Sun Pool	Breach of the land use conditions set out in the conditions of grant (the “Government lease”) 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 Building Authority regarding the change of land use. Sun Pool, as the owner of Premises 1, had been wholly using Premises 1 as its office since March 2015 where the usage 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>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 amounting HK\$301,690; 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”). Sun Pool has obtained the confirmation dated 31 July 2015 from the existing mortgagee bank to the Premises 1 that it has no objection to the Waiver. The Directors further confirm that the waiver fee has been fully paid on 7 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>Once the Waiver 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>Under section 40(2) and section 40(6) of the Buildings Ordinance, and if the Group is deemed to have materially changed the use of the Premises 1 under section 25 of the Building Ordinance by carrying out building works for the erection of an office without giving prior notice to the Building Authority and obtaining its approval or the plan in relation to such building works had been refused by the Building Authority, Sun Pool will be 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 Government lease, 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>	<p>The Group has established policies and procedures to govern the acquisition or disposal of landed properties.</p> <p>The Group will also seek assistance from external professionals such as registered architects or other authorised persons and legal advisers, if necessary, in order to ensure full compliance with the relevant laws and regulations in the usage of properties in the future.</p> <p>Regular meeting will be held by the senior management of the Company to review the uses and conditions of the Premises in order to ensure full compliance with the terms set out in the Government lease.</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	Measures to prevent any future breaches and ensure on-going compliance
KPa Engineering	Breach of the land use conditions set out in the Government lease 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 Building Authority regarding the change of land use. KPa Engineering, as the owner of Premises 2, had been wholly using Premises 2 as its office since March 2015 where the usage 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 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>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 amounting HK\$1,500,495; 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”). KPa Engineering has obtained the confirmation dated 31 July 2015 from the existing mortgagee bank to the Premises 2 that it has no objection to the Waiver. The Directors further confirm that the waiver fee has been fully paid on 7 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>Once the Waiver 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>Under section 40(2) and section 40(6) of the Buildings Ordinance, and if the Group is deemed to have materially changed the use of the Premises 2 under section 25 of the Building Ordinance by carrying out building works for the erection of an office without giving prior notice to the Building Authority and obtaining its approval or the plan in relation to such building works had been refused by the Building Authority, KPa Engineering will be 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 liable 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 Government lease, 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>	Same as above.

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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	Measures to prevent any future breaches and ensure on-going compliance
BuildMax (HK)	Breach of the land use conditions set out in the Government lease 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 Building Authority regarding the change of land use. BuildMax (HK), as the owner of Premises 3, had been wholly using Premises 3 as its office since March 2015 where the usage 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 life time of Premises 3 had been made by surveyors engaged by the Group for and on its behalf on 23 March 2015.</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 amounting HK\$433,340; 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 time 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”). BuildMax (HK) has obtained the confirmation dated 31 July 2015 from the existing mortgagee bank to the Premises 3 that it has no objection to the Waiver. The Directors further confirm that the waiver fee has been fully paid on 7 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>Once the Waiver 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>Under section 40(2) and section 40(6) of the Buildings Ordinance, and if the Group is deemed to have materially changed the use of the Premises 3 under section 25 of the Building Ordinance by carrying out building works for the erection of an office without giving prior notice to the Building Authority and obtaining its approval or the plan in relation to such building works had been refused by the Building Authority, BuildMax (HK) will be 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 Government lease, 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>	Same as above.

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**Non-compliances with the Predecessor 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(1) 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>Sun Pool and its directors who were in default of section 111 of the Predecessor Companies Ordinance shall be liable to a maximum fine of HK\$50,000.</p> <p>As advised by Hong Kong Legal Advisers, if Sun Pool and its directors are being prosecuted under section 111(1) of the Predecessor Companies Ordinance, Sun Pool and its directors would be exposed to a maximum fine of HK\$50,000.</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, it is noted that (i) the Court is likely to dismiss the application for rectification of this non-compliance; and (ii) the prosecution against Sun Pool and its directors under section 111(1) of the Predecessor Companies Ordinance is remote as the non-compliance was technical by nature and was not intentionally committed.</p>



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<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>
<p>Non-compliance with section 122 of the Predecessor Companies Ordinance (corresponding to sections 431 of the Companies Ordinance).</p>	<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>	<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.</p>	<p>The audited accounts were laid before the annual general meetings subsequently held.</p>	<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>As advised by Hong Kong Legal Advisers, if the directors of Sun Pool and BuildMax (HK) are being prosecuted under section 122 of the Predecessor Companies Ordinance, the directors of Sun Pool and BuildMax (HK) would be exposed to a maximum fine of HK\$900,000 (i.e. HK\$300,000 for each breach) and a maximum imprisonment of 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, it is noted that (i) the Court is likely to dismiss the application for rectification of this non-compliance; and (ii) the likelihood of prosecution against the directors of Sun Pool and BuildMax (HK) under section 122 of the Predecessor Companies Ordinance is extremely remote as the non-compliances were technical by nature and were not intentionally committed.</p>

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### *Reasons for the non-compliances of the Government lease and occupation permit*

The Directors explained that they were not aware that Premises 1, Premises 2 and Premises 3 (collectively the "Premises") could not be used as offices when the Group bought the Premises as (i) they noticed that a number of properties in the neighborhood had been used mainly as offices; and (ii) they were not particularly advised or reminded by the estate agents or lawyers that the Premises could not be used as offices.

As confirmed by the Directors, the Premises had been used as offices partly for certain design and drawing works since the acquisition of the Premises and until the Group gradually relocated such design and drawing works to KPa (SZ) in Shenzhen in around March 2015. The Hong Kong Legal Advisers opined that pursuant to Chapter 5 of the Hong Kong Planning Standards and Guidelines issued by the Lands Department, there is no restriction on the size of an office to be established within an industrial building as long as it is directly related to an industrial operation. As such design and drawing works formed a part of successive stages in one continuous industrial process of the Group in manufacturing of its products, the Group's use of Premises as an office directly relating to an industrial operation before March 2015 should not be in breach of the Premises' land use. After the design and drawing works were relocated to KPa (SZ) in Shenzhen, the Premises were wholly used as office for the Group and since then, there may be a breach of the permitted usage of the Premises. In preparation for the [REDACTED], the Hong Kong Legal Advisers therefore advised the Group to take foolproof measures in dealing with the compliance issue of the Government lease and advised the Group to apply for the Waivers in respect of the permitted usage of the Government lease of the Premises in March 2015.

### *Maximum liabilities of the Group and its Directors*

As to the maximum liability the Group and its Directors would be exposed to as a result of the non-compliances in respect of the permitted usage of the Premises, the Hong Kong Legal Advisers advised that the Government can exercise the right of re-entry of the Premises if there is any breach of the Government lease. As the Group had applied for the Waivers and paid the Waiver fee (i.e. the premium) and administrative fee (collectively "the Requisite Fees"), upon seeking advises from the Hong Kong Legal Advisers, the Director noticed that no forbearance fee will be charged against the Group even if the Formal Waiver Letters are yet to be issued as at the Latest Practicable Date.

If there were any illegal building works carried out in the Premises for the erection of any structure, which was intended for changing the use of the Premises without giving prior notice to the Building Authority and obtaining its prior approval or the Building Authority having refused the plans of such building works, the Group would be exposed to a maximum fine of HK\$100,000 for each breach and its Directors who had authorised or consented to the breaches are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum. The Directors confirmed that no illegal building works had ever been carried out or needed to be carried out in any of the three Premises for the purpose of changing its permitted usage into office. Nor had the Group been complained of any illegal structure erected in the Premises. As such, the Hong Kong Legal Advisers take the view that the Group's possible non-compliances of the permitted usage of the Premises without carrying out any illegal building works or erecting any illegal structure in the

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Premises would not fall within the ambit of the offences under section 40(2) of the Buildings Ordinance and thus, both the Group and its Directors shall not be subject to any risk of fine or imprisonment under section 40(2) of the Buildings Ordinance.

### *Rectification of the non-compliances relating to the permitted usage of the Premises*

To rectify the non-compliances, the Group had engaged a firm of surveyors to apply for the modification of the permitted usage of the Government lease of the relevant Premises in March 2015 to the extent that it can be used as office. Pursuant to the letters from the Lands Department dated 10 July 2015, the Lands Department confirmed that it was prepared to recommend to the Government of Hong Kong SAR to offer the Waiver of the relevant lease condition, which covers the life time of the respective Premises provided, *inter alia*, that (i) the Group had paid the Requisite Fees and the Group’s confirmation of its acceptance on the terms of the Waiver; and (ii) there is no objection from its mortgagee bank. A draft formal Waiver Letter for use in the transaction is also attached to the letter from the Lands Department of 10 July 2015 for the Group’s information (the “**Draft Formal Waiver Letter**”). The Group had obtained the relevant mortgagee bank’s consent to the modification of the permitted usage of the relevant Premises and paid all the Requisite Fees in August 2015.

Notwithstanding that the formal waiver letter is yet to be issued by the Lands Department (the “**Formal Waiver Letter**”) as at the Latest Practicable Date, the Counsel opined that the previous non-compliances related to the permitted usage of the Premises shall be deemed to have been duly rectified as the Lands Department had expressly indicated its acceptance of the Group’s applications for the Waiver and there should not be any legal impediment for the Group to obtain the Formal Waiver Letters from the Lands Department. The Company, through its Hong Kong Legal Advisers, had made a telephone enquiry with the relevant District Land Office on 10 September 2015 and were given to understand that the Formal Waiver Letter should normally be issued to the Group unless it discovered that the Group had used the Premises in breach of terms set out in the Formal Waiver Letter (a draft which was attached to the letter from the Lands Department dated 10 July 2015) in the future. In this connection, the Directors had, jointly and severally, irrevocably undertaken to the Company that they would procure the Group to use the Premises in compliance with the terms set out in the Government lease and the Formal Waiver Letter at all times when they are acting as the Directors (the “**Directors’ Undertakings**”).

### *Waiver letters*

As advised by the Counsel, the possible non-compliances of the permitted usage of the Premises under the respective Government leases should be deemed to have been fully rectified once the Waivers are granted by the Lands Department. In this connection, though the Waiver was and would be described as a “temporary waiver” in the respective Draft Waiver Letter and the Formal Waiver Letter to be issued by the Lands Department, it is expressly mentioned that the Waiver cover the life time of the existing building presently erected on the relevant lot of the land. Hence, the Waiver shall continue to be effective insofar as the Premises would continue to exist. The Counsel further advised that as a matter of private law (*viz*, the Government being a private landlord in the land in Hong Kong), it is entirely up to the Government and the users of the land to negotiate on the terms of the Government lease, for instance, in exchange for a monetary benefit mutually accepted by the parties. Hence, by stating in the relevant Waiver Letter that the Waiver is

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a temporary one, the Government could reserve the right to exercise the right of re-entry of the Premises if it wants to engage in negotiation with the Group for a change of the permitted usage of the Premises in the future and/or if it discovers that the Group has committed any material breach of the terms in the Government lease and the Waiver Letters and decides to re-enter the Premises in the future.

The Group paid aggregate waiver fees amounting to approximately HK\$2.2 million in August 2015. Prior to the grant of the Waiver by the Lands Department, the Group has recognised the Waiver fee paid as “prepayments” in the combined statement of financial position. Once the Waiver to permit office use is granted to the Group, the Group will capitalise the waiver fee as part of the cost of the subject properties under “property, plant and equipment” and depreciate the waiver fee over the remaining useful lives of the properties. Such waiver fees were financed by the Group’s existing banking facilities and the Directors confirmed that it would not have a material adverse impact on the financial position of the Group.

### *Internal control measures to prevent the recurrence of non-compliances relating to the permitted usage of the Premises*

In relation to the previous non-compliances of the permitted usage of the Premises, the Group has adopted the following measures to prevent future non-compliance incidents: (i) the Group has established policies and procedures to govern the acquisition or disposal of landed properties; (ii) the Group will also seek assistance from external professionals such as registered architects or other authorised persons and legal advisers, if necessary, in order to ensure full compliance with the relevant laws and regulations in the usage of properties in the future; and (iii) regular meeting will be held by the senior management of the Company to review the usage and conditions of the Premises in order to ensure full compliance with the terms set out in the Government lease and the Formal Waiver Letters. Having considered that (i) the Premises had been used wholly as office shortly after the design and drawing works were relocated to KPa (SZ) in Shenzhen in around March 2015 and the non-compliances were not intentional; (ii) the Directors took prompt action to make appropriate rectifications after taking the advices from the Hong Kong Legal Advisers; (iii) the Group has properly implemented the enhanced internal control measures to monitor the usage of properties; and (iv) no illegal building works or illegal structures intended to change the usage of the Premises, which would give rise to prosecution under section 40(2) of the Buildings Ordinance, had been carried out or erected and thus, the safety of the Premises will not be affected by the change of the usage of the Premises to office, the Directors are of the view that the enhanced internal control measures are adequate and effective to avoid any future non-compliance incidents. The Sponsor has reviewed the internal control and follow-up reports prepared by the Internal Control Adviser, discussed with the Internal Control Adviser on the design effectiveness of the internal control measures and concurred with the Directors’ view that the Company’s enhanced internal controls measures could sufficiently and effectively ensure a proper internal control system of the Group.

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### **Non-compliances regarding the Predecessor Companies Ordinance and the Companies Ordinance**

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. Further, the Group has also adopted various measures to enhance its internal controls to ensure future compliance with the GEM Listing Rules and relevant laws and regulations. For further information on the internal control system of the Company, please refer to the section headed “Business — Internal control” to this [REDACTED]. 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 in prevent further occurrence of the above non-compliances 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 section headed “E. Other Information — 14. Tax and other indemnities” as set out in Appendix V to this [REDACTED].

### **Aggregate maximum legal consequences of the non-compliances**

Concerning the legal consequences as a result of the Group’s possible breaches of the permitted usage of the Government lease of the Premises, upon seeking advices from the Hong Kong Legal Advisers, the Directors noticed that as the Group had applied for the Waivers and paid all Requisite Fees for a change of the permitted usage of the Premises under the Government lease, the Hong Kong Legal Advisers advised that no forbearance fees will be charged against the Group even if the Formal Waiver Letters are yet to be issued as at the Latest Practicable Date.

Concerning the legal consequences as a result of the Group’s breaches of the Predecessor Companies Ordinance and the Companies Ordinance, the Group and its Directors are exposed to a payment of penalty in a sum of HK\$950,000 (of which a respective sum of HK\$50,000 and HK\$900,000 be payable for breach of section 111(1) and section 122 of the Predecessor Companies Ordinance. Taking into account the recent judgments pronounced by the High Court of Hong Kong in relation to the same breaches committed by other companies in Hong Kong, the Hong Kong Legal Advisers advised that there is no real risk that the Group and/or its Directors would be prosecuted for breach of section 111(1) and section 122 of the Predecessor Companies Ordinance as the breaches are entirely technical by nature and were not intentionally committed and most importantly, the remedial action had been taken by the Group.

Base on the foregoing, no provision had been made in the financial statements of the Group and the Directors consider that the maximum penalty in respect of the above non-compliance in relation to the Predecessor Companies Ordinance, in case of successful prosecution, would not have any material adverse impact on the Group’s business, financial condition and result of operations.

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### **The implications of the possible non-compliances on the Directors’ integrity, competence and suitability to act as directors of the Company and Mr Yip’s suitability to act as the compliance officer of the Group**

In light of the above, in particular the facts that (i) the Lands Department did not take any enforcement action against the Group or give any warning to the Group regarding the possible non-compliances of the permitted usage of the Premises, which led the Directors to believe that the Group’s then use of the Premises would not constitute any possible non-compliances of the Government lease at the material time; (ii) the Directors did not procure the Group to let out the Premises as offices for rental income or obtain any personal benefits therefrom; (iii) the non-compliances did not involve any dishonesty on the part of the Directors; (iv) the Directors had immediately procured the Group to take prompt and foolproof measures in applying for the Waivers once the Hong Kong Legal Advisers advised the Group that the then usage of the Premises by the Group might constitute a possible non-compliance of the Government lease; and (v) no illegal building works or illegal structures in the Premises for the purpose of changing the usage of the Premises, which would give rise to prosecution under section 40(2) of the Buildings Ordinance, had been carried out or erected and thus, the safety of the Premises will not be affected in all respects due to the change of the usage of the Premises, the non-compliances should therefore not affect their suitability to act as Directors of the Company under Rules 5.02 and 5.03 of the GEM Listing Rules, or impugn on their integrity or competence.

Additionally, with respect to Mr. Yip’s suitability to act as the compliance officer of the Group, who has been designated by the Company to oversee and monitor the Group’s adherence to relevant laws and regulations in respect of the Group’s operation, Mr. Yip has over 20 years of management experience in the structural engineering and construction industry. Based on his management experience, Mr. Yip has significant knowledge and understanding on the relevant laws and regulations with respect to the structural engineering and construction industry such as the licensing regime in the construction industry. Mr. Yip has extensive networks with other business partners in the structural engineering and construction industry, which may enhance his awareness and knowledge to the latest relevant law and regulations. Further, in preparation for the [REDACTED], Mr. Yip had attended and will after [REDACTED] continue to attend legal and compliance training provided by the Hong Kong Legal Advisers which covered, among other matters, corporate governance, directors’ responsibilities, compliance with the GEM Listing Rules, the Companies Ordinance, the SFO, and other relevant laws and regulations which is related to the Group’s operations. Mr. Yip had also been involved in the review process conducted by the Internal Control Adviser regarding the internal control systems and supervised the implementation of the recommendations made by Internal Control Adviser.

The company secretary, Mr. Chan Sun Kwong, who is a fellow member of the Hong Kong Institute of Certified Public Accountants, will also assist Mr. Yip in overseeing the compliance matters. The Group has also engaged Messis Capital as the compliance adviser upon [REDACTED] to advise the Group on compliance matters in accordance with the GEM Listing Rules. The Company will arrange annual legal and compliance training prepared by qualified professionals for the Directors and senior management after the [REDACTED]. With regards to the non-compliance with the Government lease and occupation permit, (i) the use of the Group’s leased and owned properties going forward; and (ii) all future agreements in relation to the lease or purchase of properties will be reviewed by the Group’s compliance adviser, the Board and the

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Hong Kong Legal Advisers. With regards to the non-compliance in relation to the Predecessor Companies Ordinance, the compliance adviser will continue to supervise and oversee the work performed by the Group’s company secretary and financial controller to ensure the ongoing compliance with the Predecessor Companies Ordinance. Taking into account (i) the qualifications and experience of Mr. Yip; (ii) the legal and compliance training attended and to be attended by Mr. Yip; (iii) assistance from the company secretary and external professionals, including legal advisers and the compliance adviser; and (iv) various internal control measures as mentioned in the section headed “Business — Internal control” to this [REDACTED], the Directors are of the view that Mr. Yip is capable of discharging his duties as the compliance officer.

### *Views of the Directors and Sponsor*

Having considered (i) the background leading to the non-compliances of the permitted usage of the Premises under the relevant Government leases; (ii) the Counsel’s opinion as aforementioned; (iii) the various internal control measures adopted by the Group to prevent any future non-compliance; and (iv) no illegal building works or illegal structures intended to change the usage of the Premises, which would give rise to prosecution against the Group and the Directors, had been carried out, the Directors are of the view, and the Sponsor concurs, that the non-compliances do not affect the character, experience and integrity of Mr. Yip to act as a director of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules and to act as the compliance officer of the Company; and the aforesaid non-compliances do not materially affect the suitability for the Company’s [REDACTED] under Rule 11.06 of the GEM Listing Rules.

## **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

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approximately HK\$0.2 million by KPa Engineering to the subcontractor as part payment of the balance 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.

#### ***Criminal prosecution against KPa Engineering and others***

On 15 October 2013, the Labour Department alleged that KPa Engineering, being a contractor who had direct control over a construction site in Shum Shui Po, had 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, as according to the prosecution’s statements, a worker who wore safety harness but was found to have failed to anchor the safety harness to any independent lifeline or anchorage when working on a bamboo scaffold at the construction site. On 8 April 2014, KPa Engineering, together with the main contractor, were summoned by the Magistrates’ Court of HKSAR for 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 “**Conviction**”). The Group disagreed with the Conviction and subsequently filed a notice of appeal on 11 November 2014 against the Conviction. The hearing of the appeal was held on 25 August 2015 and as at the Latest Practicable Date, the Directors had not yet received the judgement of the said appeal hearing. The Directors are of the opinion that there is no material financial impact to the Group as the penalty has been paid already.



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In relation to the possible adverse impact of the said regulatory prosecution upon the Group (if the conviction is sustained on appeal), the Company was advised by the Counsel, after taking into account the facts leading to such prosecution, that, *inter alia*:

- (i) as the regulatory prosecution does not fall under the criteria which warrant mandatory suspension from tendering of public works and removal from the list of registered contractors as set out in the Development Bureau Technical Circular (Works) No.3/2009 and the Contractor Management Handbook issued by the Development Bureau, KPa Engineering is therefore (a) unlikely to be precluded from the List of Approved Suppliers of Materials and Specialist Contractors for Public Works; and (b) not at real risk of not being awarded public works contracts in the future; and
- (ii) it was confirmed by a letter dated 2 June 2015 issued by the Buildings Department (the “**BD Letter**”) that KPa Engineering had no disciplinary record and no disciplinary action was being pursued against KPa Engineering. Pursuant to the BD Letter, no disciplinary action was initiated since the regulatory prosecution.

In relation to the extent that KPa Engineering’s criminal record would affect its ability to renew its Minor Works Contractor registration and the suitability of the contractor’s registration as a result of the Conviction, according to the advice from the Counsel, the Building Authority (“**BA**”) will make the assessment based on the criteria (the “**Assessment Criteria**”) set out in the Practice Note for Registered Contractor 69 (“**PN 69**”), which include, among others, seven or more convictions of a contractor within a rolling 6-month period or any criminal conviction that resulted in imprisonment for malpractice or misconduct in building works or construction related activities etc. If the BA finds it necessary, the BA will refer the application to the Minor Works Contractors Registration Committee (the “**MWCRC**”), an independent body appointed by the BA, for an interview and assessment.

Having sought the opinion of the Counsel, the Directors note that the relevant conviction of KPa Engineering (the “**Conviction**”) should not adversely affect or negate KPa Engineering’s Minor Works Contractor registration in light of the Assessment Criteria because the Conviction (i) is a minor one in terms of its nature and no personal injury was inflicted to any worker; (ii) is a single conviction related to labour safety offence involved by KPa Engineering within a rolling six-month period as opposed to the threshold of seven convictions or more within any rolling six-month period which would adversely affect the suitability of a contractor; (iii) did not result in a conviction leading to imprisonment for malpractice or misconduct in building works or construction related activities as expressly mentioned in the Assessment Criteria; and (iv) save for being a labour safety offence, the Conviction was not related to any other offences under the Assessment Criteria as set out in PN 69. After taking into consideration the Counsel’s advice, the Directors note that the BA will consider the suitability of individual minor works contractor in its renewal of registration based on the Assessment Criteria which are related to its compliance track record in totality.

Further, taking into account (i) circumstances of the incident which resulted in the regulatory prosecution and the fact it did not involve intentional misconduct, fraud, dishonesty or corruption on the part of the Directors and senior management of the Group; (ii) the Conviction was the only conviction of KPa Engineering within a rolling six-month period and was minor in nature without causing any injury or death to the worker who failed to anchor his safety belt to any independent lifeline or anchorage point; and (iii) the Group has adopted preventive measures to further reduce the risk of

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accidents which can lead to such regulatory prosecutions, the Directors are of the view, and the Sponsor concurs such view, that the current regulatory conviction does not and should not reflect, in any material respect, negatively on the ability and tendency of the Company. Hence, such Conviction, which is a regulatory criminal conviction by nature, should not constitute a systematic non-compliance on the part of KPa Engineering, nor prejudice its tendering of contracts in the future. For further information on the preventive measures taken by the Company, please refer to the section headed “Business — Additional safety measures adopted by the Group” to this [REDACTED]. Based on the above, the Directors believe the potential adverse impact of the regulatory prosecution record on KPa Engineering is immaterial.

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

The Directors confirmed that a total of 13 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 11 of them were the employees of the subcontractors of the Group. One of the workers was injured outside the construction site.

As at the Latest Practicable date, out of these 13 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 11 injured workers who are the employees of the subcontractors of the Group*

- (i) seven 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) two of them had reached settlement with the main contractor, 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.
- (iii) 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 materialise, pursuant to section 26 of the Employee’s

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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.

- (iv) one of them, to the best knowledge of the Directors, had 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 accident pursuant to the said ordinance) and under common law for personal injury (i.e. 36 months from the date of the accident pursuant to the Limitation Ordinance) had not yet expired as at the Latest Practicable Date, such injured worker is entitled to make the aforesaid claims against the Company.

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.

Save as disclosed under the section headed “Business — Litigation” to this [REDACTED], 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.