

## BUSINESS

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### OVERVIEW

We are an established main contractor in Hong Kong focusing on providing (i) building construction services; and (ii) repair, maintenance, alteration and addition (“**RMAA**”) works services. We are responsible for the overall management and implementation of our projects. As a main contractor, we primarily focus on project management, engineering design and technical submission, devising detailed work programmes, procurement of major construction materials, co-ordination with the customers or their consultants and the quality control of the works carried by the sub-contractors.

As a main contractor, we normally secure our projects through a tendering process. We usually identify Government projects through reviewing the tender invitations from various Government departments published on the Gazette. As for projects from non-Government customers, we are generally invited by the customers by way of invitation letters to submit a tender for a potential project.

Our Group holds various construction related license and qualifications that enable us to bid for and carry out Government and quasi-Government contracts. Our Group is listed on the Contractor List and the Specialist List maintained by the WBDB. The Contractor List and the Specialist List are lists of contractors approved by the WBDB who are eligible to tender for Government contracts. Our Group achieved listing as a Group C (confirmed) contractor for “Buildings” category in the Contractor List since June 2009. Group C (confirmed) contractors are the highest ranking contractors in the Contractor List in terms of tender limit, and are eligible to tender for public works contracts of any values exceeding HK\$185.0 million.

In addition, our Group is one of the contractors registered under the “Repair and Restoration of Historic Buildings” category of the Specialist List and is allowed to carry out works in relation to repair and restoration of Western-style historic buildings in Hong Kong. During the Track Record Period, we acted as the main contractor and completed the project in relation to conservation and revitalisation of the Former Police Married Quarters by transforming it into the currently-known PMQ, a creative industry landmark on Hollywood Road, Hong Kong (the “**PMQ Project**”).

Our Group is a Group NW1 (confirmed) contractor under the Building (New Works) category and a Group M1 (confirmed) contractor under the Building (Maintenance) category with the Housing Authority. We are eligible to submit tenders for the Housing Authority contracts for new works with a value of up to HK\$550.0 million and for maintenance and improvement works with a value of up to HK\$50.0 million. Our Group is also a registered general building contractor with the Buildings Department and an approved contractor with the Housing Society for building maintenance and improvement works. In addition, our Group was or is a contractor for a number of quasi-Government organisations, universities, charities and institutions in Hong Kong.

During the Track Record Period, our major customers include the Government, quasi-Government organisations, universities, schools, institutions, and incorporated owners of private residential properties. For the years ended 31 March 2014 and 2015, revenue derived from the

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Government and quasi-Government organisations accounted for approximately 90.8% and 74.0% of our total revenue respectively. During the Track Record Period, revenue derived from our top five largest customers amounted to approximately 96.2% and 96.1% of our total revenue respectively. Our top five largest customers during the Track Record Period have maintained business relationship with us for a period ranging from one year to 20 years.

We act as the main contractor in all our projects during the Track Record Period and delegate works to our sub-contractors under supervision of and management by our project management team. Our role as a main contractor generally includes overall project management and supervision of works conducted by our sub-contractors to ensure their conformity to contractual specification and that projects are completed on time and within budget. During the Track Record Period, our Group’s sub-contracting fees amounted to approximately HK\$99.3 million and HK\$123.8 million, respectively, representing approximately 67.1% and 70.0% of our Group’s total direct costs, respectively and expenses to our Group’s top five largest sub-contractors accounted for approximately 41.2% and 38.1% of our Group’s direct costs, respectively. Our top five largest sub-contractors during the Track Record Period have maintained business relationship with us for a period ranging from one year to 14 years.

We have accumulated over 30 years of experience in providing construction services to our customers. We have also received a number of accreditations and certifications from SGS for our integrated management system’s current compliance with ISO9001:2008 (quality management), ISO14001:2004 (environmental management) and OHSAS18001:2007 (occupational health and safety management) standards. Our Directors believe that the success of our Group in the industry stems from our extensive knowledge and experience in the industry, commitment to maintaining an effective quality, occupational health, safety and environmental management system, and the ability to complete projects to the satisfaction of our customers on a timely basis.

According to the Ipsos Report, with the support of Government’s housing policies in the recent years, it is expected that the revenue of the building construction work contracting industry will have a substantial growth at a CAGR of about 17.2% from approximately HK\$99.8 billion by the end of 2015 to approximately HK\$188.1 billion in 2019. In addition, it is forecasted that the revenue of RMAA contacting service will increase moderately from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019, at a CAGR of approximately 1.7%, mainly due to rising construction costs which will lead to an increase in the project value. Leveraging the forecasted increase in revenue in Hong Kong building construction industry and our increased effort in expanding our RMAA business, our Directors are of the view that our Group has much growth potential in the industry that we are engaged in.

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### LICENSE AND QUALIFICATIONS

As at the Latest Practicable Date, our Group has obtained the following license and qualifications that are material to our business operations in Hong Kong:

Relevant authority/ organisation	Relevant list/category	License/ Qualification	Holder	Date of first grant/ registration	Validity period	Authorised contract value
WBDB <sup>(Note 1)</sup>	Approved Contractors for Public Works — Buildings category	Group C (confirmed) <sup>(Note 2)</sup>	Techoy Construction	30 June 2009	Not applicable <sup>(Note 7)</sup>	Contracts of any value exceeding HK\$185.0 million
WBDB <sup>(Note 1)</sup>	Approved Suppliers of Materials and Specialist Contractors for Public Works — Repair and Restoration of Historic Buildings Category (for “Western Style Buildings only”) <sup>(Note 3)</sup>	—	Techoy Construction	4 November 2013	Not applicable <sup>(Note 7)</sup>	No limit
Buildings Department	General Building Contractor <sup>(Note 4)</sup>	—	Techoy Construction	6 February 1996	21 October 2017	No limit
Housing Authority	Housing Authority List of Building Contractors — Building (New Works) Category	Group NW1 (confirmed) <sup>(Note 5)</sup>	Techoy Construction	15 November 2001	Not applicable <sup>(Note 7)</sup>	New works contracts with a value of up to HK\$550.0 million
Housing Authority	Housing Authority List of Building Contractors — Maintenance Works Category	Group M1 (confirmed) <sup>(Note 6)</sup>	Techoy Construction	8 September 2006	Not applicable <sup>(Note 7)</sup>	Maintenance and improvement works with a value of up to HK\$50.0 million

*Notes:*

- WBDB refers to the Works Branch Development Bureau (發展局工務科) of the Government. The Development Bureau is responsible for, among other things, the maintenance of the Contractor List and the Specialist List and monitoring the eligibility of a contractor to tender for Government contracts.
- A Group C (confirmed) contractor is eligible to tender for Government contracts of any values exceeding HK\$185.0 million. A Group C (confirmed) contractor is however normally not be allowed to tender for contracts of value below the tender limit set for Group C contractors unless the relevant Government department considers that there may be an inadequate number of tenderers as a result of the restriction. This license is subject to two reviews annually by the WBDB.
- A Repair and Restoration of Historic Buildings Category contractor is eligible to tender for Government contracts relating to repair and restoration of historic buildings and structures. Techoy Construction is eligible under such category to tender for Government contracts relating to “Western Style Buildings” only. This license is subject to two reviews annually by the WBDB.
- The current license was granted on 30 July 2014 and will expire on 21 October 2017.

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5. A Building (New Works) Category — Group NW1 (confirmed) contractor is eligible to tender for new works contracts of the Housing Authority with a value up to HK\$550.0 million. This license is subject to two reviews annually by the Housing Authority.
6. A Maintenance Works Category — Group M1 (confirmed) contractor is eligible to tender for maintenance and improvement contracts of the Housing Authority with a value of up to HK\$50.0 million and for term maintenance and improvement contracts with an average annual expenditure of up to HK\$50.0 million.
7. The relevant registration/qualification is not subject to periodic renewal condition.

To ensure that our Group is able to obtain and maintain all necessary license and qualifications for our operations in Hong Kong in a timely manner, our executive Director and general manager, Mr Shut Yu Hang is responsible for keeping track of the expiry dates of the relevant license and apply for timely renewal. During the Track Record Period, we carried out all our business activities strictly within the scope of the relevant license and qualifications obtained by us. In addition, our Directors are of the view that there are no material impediments for our Group to renew any of our licenses upon expiry of the same.

### **COMPETITIVE STRENGTHS**

We believe that our success is attributable to, among other things, the following competitive strengths:

**(i) Strong and reliable customer base**

Our Group has a strong customer base. We primarily focus on providing high quality and efficient building construction and RMAA works services to customers from the public sector. Our top five customers during the Track Record Period mainly consisted of Government departments, quasi-Government organisations, schools and universities, including but not limited to the Architectural Services Department and the Housing Authority. Our Group has established long business relationships with our top five customers, ranging from one to 20 years. For the years ended 31 March 2014 and 2015, revenue derived from the Government and quasi-Government organisations accounted for approximately 90.8% and 74.0% of our total revenue respectively.

Our Directors believe that by focusing on providing building construction and RMAA works services to customers from the public sector, in particular to Government departments and quasi-Government organisations, the financial risk faced by our Group is relatively lower since the projects initiated by the Government and quasi-Government organisations are generally believed to have higher payment credibility and lower non-payment risk as compared to the projects initiated by private enterprises.

In addition, given the volatile nature of costs of labour and materials, considerable variation in costs may occur due to the time lapse between quotation, acceptance of tender and the commencement of works. Many of our Government and quasi-Government organisations contracts provide for a contract price adjustment mechanism (both upward and downward adjustments) which enable our Group to transfer the increase on costs of labour and materials

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to the Government and quasi-Government organisations, hence reducing our financial risks. For further details in relation to the contract price adjustment mechanism, please refer to the paragraph headed “Customers — Key terms of contracts with customers” to this section.

### **(ii) Solid track record in conserving and revitalising Hong Kong heritage**

As a Group C (confirmed) contractor under the Contractor List, which is the highest rank under the Contractor List, our Group is eligible to tender for Government construction contracts of any values exceeding HK\$185.0 million. Leveraging on our extensive experience in the construction industry, we expanded our spectrum of construction services in 2013 to cover revitalisation projects by applying to the WBDB for the admission to the Specialist List under the “Repair and Restoration of Historic Buildings” category. Despite such qualification is not a general pre-requisite for tendering Government revitalisation projects, main contractors who wish to carry out Government revitalisation projects are required to either possess the qualification or engage sub-contractors with such qualification in executing the revitalisation works. Our Group was admitted to the Specialist List under the “Repair and Restoration of Historic Buildings” category in November 2013 and is allowed to carry out works in relation to repair and restoration of Western-style historic buildings in Hong Kong.

With our qualifications under both the Contractor List and Specialist List as mentioned above, our Group can tender for and execute large-scale Government revitalisation projects without the need of engaging specialist contractors who also possess the same qualification under the Specialist List. This allows our Group to strengthen our market position in the construction industry and solidify our profit margins under Government revitalisation projects. During the Track Record Period, we completed one revitalisation project in Hong Kong, namely the PMQ Project, with an initial contract value of approximately HK\$354.1 million. The PMQ Project was commenced in January 2012 and was substantially completed in December 2013. For the years ended 31 March 2014 and 2015, revenue derived from the PMQ Project amounted to approximately HK\$143.6 million and HK\$43.3 million, respectively, representing approximately 83.4% and 20.9% of our total revenue respectively.

### **(iii) Diversified experience and qualifications**

We are a well-established main contractor with extensive experience and qualifications in carrying out a variety of building construction and RMAA projects ranging from construction of hospitals, maintenance of universities, schools, public housing estates and revitalisation of heritages in Hong Kong.

In addition to our qualifications under both the Contractor List and Specialist List, we are listed as a Group NW1 (confirmed) contractor under the Building (New Works) category and a Group M1 (confirmed) contractor under the Building (Maintenance) category for the Housing Authority. Our Group also holds the General Building Contractor Licence and is an approved contractor with the Hong Kong Housing Society for building maintenance and improvement works. Please refer to the paragraph headed “Licenses and Qualifications” in this section for further details of our major licenses and qualifications. Given our licenses

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qualifications with these Government departments and quasi-Government organisations, our Group is entitled to tender for and well positioned to capture business opportunities in vast majority of public construction and RMAA projects in Hong Kong. According to the Ipsos Report, fueled by the ongoing infrastructure projects under the Ten Major Infrastructure Projects and the Government’s decision to offer more public rental housing units to shorten the average waiting time for public rental housing, the demand for public building construction services is expected to record a steady growth. In addition, as the demand for maintenance and renovation of ageing buildings is on the rise and the Government has implemented policies for urban renewal and the revitalisation of ageing buildings, the public RMAA service industry in Hong Kong is also expected to grow in the foreseeable future.

Our Directors believe that with the qualifications mentioned above and the experience we accumulated over 30 years of operation, we will be able to continue to undertake various kinds of projects and capture the growth opportunities in the construction industry, in particular the anticipated surge in the demand for public housing construction, maintenance and renovation services.

**(iv) Commitment to maintain safety standard, quality control and environmental protection**

Our Directors recognise that the maintenance of safety standard, quality control and environmental protection is vital in upholding the reputation of our Group in the construction industry. We have established and implemented an integrated management system for quality, environmental, health and safety management. Our stringent quality control procedures have been accredited by SGS with ISO9001:2008 quality management system certification.

We have also received the ISO14001:2004 certification for environmental management system and the OHSAS18001:2007 certification for our occupational health and safety management system. Our Government and quasi-Government customers generally consider environmental compliance and workplace safety as important assessment criteria in assessing our tenders. Our Directors believe that with our effective occupational health and safety management system, we could maintain good compliance track record and management system that increase our chances in securing new contracts from our customers.

**(v) Experienced management team**

Our management team has extensive industry knowledge and project management experience in building construction and RMAA works. Our executive Directors, namely Mr. Lam Kin Wing Eddie and Mr. Shut Yu Hang, have over 38 and 28 years of experience in the construction industry, respectively. As at the Latest Practicable Date, a majority of our senior management team has either received tertiary education or above or professional qualifications. Please refer to the section headed “Directors, Senior Management and Employees” in this document for further details of the qualification and experience of our

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Directors and senior management. With their experience, knowledge and insight, our management team is able to lead our Group to excel in this competitive industry, to take advantage of our market position and to ensure our future growth.

### BUSINESS STRATEGIES

We intend to strengthen our market position and increase our market share by pursuing the following strategies:

#### **Continue to strengthen our market position in the industry and expand our market share in Hong Kong**

We plan to strengthen our position in the industry by continuously seeking opportunities in public building construction and RMAA works in Hong Kong. During the Track Record period, we derived the majority of our revenue from construction projects in the public sector. For the years ended 31 March 2014 and 2015, revenue derived from the Government and quasi-Government organisations accounted for approximately 90.8% and 74.0% of our total revenue. According to the Ipsos Report, due to the Government’s decision to offer more public rental housing units and the ongoing infrastructure projects under the Ten Major Infrastructure Projects, it is expected that the demand for public building constructions will keep growing. Moreover, the Government’s policies to stimulate urban renewal plans and to revitalise old industrial buildings provide greater market opportunities to public RMAA contracting service providers in Hong Kong. In view of the above, we will continue to leverage on our various licenses and qualifications and extensive experience in construction industry to solidify and expand our market share in the public construction industry in Hong Kong.

In addition, we plan to further expand and strengthen our RMAA services. We strategically expanded our RMAA works services since 2013 in order to capture the growth in RMAA industry in Hong Kong and broaden our customer base. According to the Ipsos Report, the revenue of RMAA contracting services experienced a positive growth from around HK\$31.0 billion in 2010 to around HK\$51.4 billion in 2014 at a CAGR of around 13.5%. The main reasons for the upward trend include (i) the Government has implemented various policies to stimulate urban renewal plans with aim to support owners to improve building safety; and (ii) increasing number of commercial building owners adopting RMAA works to enhance appearance and durability of office and retail spaces for potential tenants and customers. Moreover, the Ipsos Report stated that the overall total revenue of RMAA services in Hong Kong is forecasted to increase moderately from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019, at a CAGR of approximately 1.7%. With the large potential market, our Group intends to continue to expand our RMAA services in Hong Kong. During the Track Record Period, the revenue contribution from our RMAA segment increased from approximately 16.7% in the year ended 31 March 2014 to 35.1% in the year ended 31 March 2015. Our Directors believe that the expansion of our Group in the future will fuel the continued growth of our construction business.

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Furthermore, we plan to capture more business opportunities by expanding our capacity and scale. In line with common industry practice in Hong Kong, our non-Government customers generally require our Group to take out surety bonds amounting to not more than 10% of the contract sum in order to secure the due performance on our part. We intend to utilise a portion of the [REDACTED] received by us from the [REDACTED] to satisfy the amount of bank deposits necessary for the issue of surety bonds for future contracts. This would allow our Group to undertake projects of larger contract value while enabling us to maintain a healthy cash-flow status and low gearing ratio. Our Directors believe that by expanding our capacity and scale, we will be able to tender for larger scale construction projects and expand our customer base by meeting the pre-qualifications of tenderers prescribed by our potential customers.

### **Expand our building construction service capacity to cover “design and build” projects**

With our extensive experience in the building construction service industry, we plan to further widen our spectrum of building construction services by embarking on “design and build” contracts. A “design and build” contract normally involves both the preparation of a construction design according to the specifications set out in the tender documents, as well as carrying out the actual construction works. For certain “design and build” contracts where a preliminary design proposal is provided by the customer, the contractor is allowed to submit an alternative design proposal or otherwise make appropriate adjustments to the conformed design in order to comply with the technical requirements and enhance cost efficiency.

Given the higher level of expertise involved on the part of the contractor, our Directors are of the view that the “design and build” contracts offer higher profit margin than our existing building construction contracts where our Group only offers build only services. We believe that we are equipped with relevant experience and proven track record to penetrate our business into the “design and build” market, which may contribute better profit margin to our Group. We intend to utilise a portion of [REDACTED] received by us from the [REDACTED] to set up a “design and build” department to pursue business opportunities in relation to “design and build” contracts.

### **Continue to improve our operational efficiency and enhance our quality of service**

With our continuous growth in business scale and scope, we plan to upgrade our information technology, technical and management systems which will enable us to plan, operate and evaluate our construction projects in a more efficient manner. In particular, we plan to utilise a portion of our [REDACTED] from the [REDACTED] to invest in the building information modeling (“BIM”) software. The BIM software is a modernised software which intends to facilitate the planning, designing, constructing and managing of construction projects through automatic generation of drawings and reports, design analysis, schedule simulation and facilities management. The BIM software allows us to make better-informed decisions, reduces conflicts and changes during constructions and improves productivity. With the benefit of the BIM system, our Group can handle more complicated projects in a more precise manner.



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In addition, we intend to arrange training workshops or courses for our staff members in relation to the BIM software to be conducted by external training authorities to facilitate the implementation of the BIM software in our forthcoming projects.

### **Further strengthening our manpower**

We believe that a strong team of staff members equipped with the relevant industry knowledge and experience is crucial to our continuing success. In addition, the involvement of our Directors and senior management at different stages of the project, such as preparation and submission of tender and quotation, project implementation and execution, is crucial to complete the projects on time and to the satisfaction of our customers. Furthermore, our Directors believe that a key to our success is our ability to recruit, retain, motivate and develop talented and experience staff members. In order to cater the growing demand for building construction and RMAA services, we intend to expand our labour resources by recruitment of additional staff, in particular experienced or skilled staff members such as project managers and site agents. We also plan to sponsor our staff to attend technical seminars and occupational health and safety courses organised by third parties so as to raise our standard and quality of services.

### **Adhere to prudent financial management to ensure sustainable growth and capital sufficiency**

We will continue to closely monitor our capital and cash flow positions, particularly our sub-contracting fees which have augmented in recent years. In the process of identifying and capturing emerging opportunities, we will continue to deploy our resources on a selective and prudent basis to focus on projects which are more profitable in nature. We will continue to focus on our internal control system to ensure adequate cash flow for our ongoing capital requirements, and to achieve maximum cost savings.

### **Implementation of business strategies**

As at the Latest Practicable Date, our Group has not identified any target for acquisition and do not have any acquisition plan. For further details on the implementation of the above-mentioned business strategies, please refer to the section headed “Future Plans and [REDACTED]” in this document.

## **BUSINESS MODEL**

We are principally engaged as a main contractor in Hong Kong in the provision of (i) building construction services; and (ii) RMAA works services. As a main contractor, we are responsible for the overall management, implementation and supervision of our projects. On award of contracts from our customers, we generally sub-contract the works to our sub-contractors by trade on a back-to-back basis of the main contract. We primarily focus on project management, devising detailed

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work programmes, procurement of major construction materials, site operation, co-ordination with the customers or their consultants and the quality control of the works carried by our employees and our sub-contractors.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary licenses and qualifications that are material to our business operations from the relevant Government authorities and such licenses and qualifications remain valid as at the Latest Practicable Date. Please refer to the paragraph headed “Licenses and Qualifications” in this section for the major licenses and qualifications held by the Group as at the Latest Practicable Date.

### **(I) Building construction services**

We generally provide building construction services to customers from both the public and private sectors, including but not limited to the Architectural Services Department, universities, schools and institutions in Hong Kong. The building construction works we normally deal with include building, piling, demolition and site formation. Our building construction services cover areas such as hospitals, schools and residential and commercial buildings in Hong Kong.

We are a Group C (confirmed) contractor under the “Buildings” category of the Contractor List and is eligible to tender for Government contracts of any values exceeding HK\$185.0 million. We are also qualified as a Group NW1 (confirmed) contractor under the Building (New Works) category of the Housing Authority and is eligible to tender for new works contracts of the Housing Authority with a value up to HK\$550.0 million.

As at the Latest Practicable Date, we were one of the 29 contractors registered under the “Repair and Restoration of Historic Buildings” category of the Specialist List and were allowed to carry out works in relation to repair and restoration of Western-style historic buildings in Hong Kong. Leveraging our proven track record of quality services and our status under the Specialist List, we completed the PMQ Project during the Track Record Period as the main contractor. During the Track Record Period, revenue derived from the building construction part of the PMQ Project amounted to approximately HK\$143.5 million and HK\$28.4 million, respectively, representing approximately 83.3% and 13.7%, respectively, of our total revenue.

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### *Contracts completed*

The following table sets forth a summary of our major building construction contracts that we have completed during the Track Record Period and up to the Latest Practicable Date:

Particulars of the contract	Customer	Construction period <sup>(Note 1)</sup>	Contract value (HK\$'000)	Amount of works certified (HK\$'000)	Amount of revenue recognised during the Track Record Period (HK\$'000)
PMQ Project	Architectural Services Department	January 2012 to December 2013	354,096	309,741 <i>(Note 2, 3)</i>	180,855 <i>(Note 4)</i>
Decanting works at a hospital located at Argyle Street, Kowloon City, Kowloon	A statutory body in Hong Kong with focus on managing all the public hospitals and institutes	May 2014 to May 2015	115,765	105,616 <i>(Note 2, 3)</i>	105,616
<b>Total:</b>			<u>469,861</u>	<u>415,357</u>	<u>286,471</u>

*Notes:*

1. Date for commencement refers to the date for commencement of the project stated in the contract entered into between our Company and our customer or our letter of acceptance, and date of completion refers to the date of substantial completion of the project stipulated on the practical completion certificate issued by our customer.
2. Amount of revenue certified varies from the contract value was mainly because of variation order(s) issued by our customers to our Group.
3. Variation between contract value and amount of works certified was mainly attributable to the exclusion of all contingent and/or provisional contract amounts set out in the relevant contracts. A contingent and/or provisional sum is a sum of money provided in the contract by the customer for costs which cannot be entirely foreseen.
4. The PMQ Project involved both building construction works and RMAA works. Approximately HK\$13.8 million of the total amount of revenue recognised during the Track Record Period was attributable to the RMAA works performed under the PMQ Project.

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### *Contracts in progress as at the Latest Practicable Date*

The following table sets forth a summary of our building construction contracts that are in progress as at the Latest Practicable Date:

<u>Particulars of the contract</u>	<u>Customer</u>	<u>Expected construction period (Note 1)</u>	<u>Contract value (HK\$'000)</u>	<u>Percentage of completion as at the Latest Practicable Date (Note 2) (%)</u>	<u>Amount of revenue recognised during the Track Record Period (HK\$'000)</u>
Redevelopment of a secondary school at Kennedy Road, Wanchai	Private customer	8 April 2015 to 23 September 2017	122,980	5.8	Nil
<b>Total:</b>			<b><u>122,980</u></b>		<b><u>Nil</u></b>

*Notes:*

- Expected construction period in general refers to the expected construction period as specified in the relevant contract, and if an application for delay or extension of time has been submitted and approved by our customers, such delayed or extended construction period would be taken as the expected construction period.
- Percentage of completion is calculated based on revenue recognised as at the Latest Practicable Date divided by contract value.

### **(II) RMAA works services**

To capture the growth in RMAA industry in Hong Kong and broaden our customer base, we strategically expanded our RMAA services in 2013. During the Track Record Period, revenue contribution from our RMAA segment increased from approximately 16.5% for the year ended 31 March 2014 to approximately 35.1% for the year ended 31 March 2015. We generally act as the main contractor in our RMAA projects during the Track Record Period and we predominantly provide RMAA services to the Government, quasi-Government organisations, universities, schools and incorporated owners of private residential buildings. Our major customers from the Government include the Architectural Services Department and the Housing Authority. Our RMAA works services cover areas such as public housing, heritage buildings, school campus and private residential properties.

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### *Contracts completed*

The following table sets forth a summary of our major RMAA works contracts that we have completed during the Track Record Period and up to the Latest Practicable Date:

Particulars of the contract	Customer	Construction period <sup>(Note 1)</sup>	Contract value	Amount of works certified	Amount of revenue recognised during the Track Record Period
			(HK\$'000)	(HK\$'000)	(HK\$'000)
Renovation works for a primary school at Kwong Lee Road, Sham Shui Po	Customer F	April 2014 to September 2014	10,311	10,310 <i>(Note 2)</i>	10,310
Reorganisation of space at building of the university located at Pok Fu Lam, Hong Kong	Customer A	February 2014 to May 2014	11,052	11,180 <i>(Note 2, 4)</i>	11,180
Redecoration of Tin Yat Estate	Housing Authority	July 2013 to May 2014	9,099	7,911 <i>(Note 2, 3)</i>	7,911
Repair works at external wall of two buildings of a public housing estate at Healthy Street East, North Point, Hong Kong	Customer B	November 2013 to April 2014	3,274	3,091 <i>(Note 2, 3)</i>	3,091
Re-roofing works at Choi Hung Estate, Shun Tin Estate, Ping Shek Estate and Kai Tin Estate in Kowloon East Region	Housing Authority	November 2012 to 28 June 2013	13,499	13,251 <i>(Note 2, 3)</i>	4,819
Improvement works for the construction of a 30-classroom primary school in So Kwun Wat, Area 55 Tuen Mun, New Territories	Architectural Services Department	March 2013 to February 2014	1,998	1,685 <i>(Note 2, 3)</i>	1,285
Improvement works for the construction of a 24-classroom primary school in So Kwun Wat, Area 55 Tuen Mun, New Territories	Architectural Services Department	March 2013 to December 2013	1,900	1,558 <i>(Note 2, 3)</i>	1,558
<b>Total</b>			<b>51,133</b>	<b>48,986</b>	<b>40,154</b>

*Notes:*

1. Date for commencement refers to the date for commencement of the project stated in the contract entered into between our Company and our customers or the letter of acceptance, and date of completion refers to the date of substantial completion of the project stipulated on the completion certificate issued by our customer.
2. Amount of revenue certified varies from the contract value was mainly because of variation order(s) issued by our customers to our Group.
3. Variation between contract value and amount of works certified was mainly attributable to the exclusion of all contingent and/or provisional contract amounts set out in the relevant contracts. A contingent and/or provisional sum is a sum of money provided in the contract by the customer for costs which cannot be entirely foreseen.
4. Variation between contract value and amount of works certified was mainly attributable to the variation orders received from our customer which resulted in additional works performed.

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### *Contracts in progress as at the Latest Practicable Date*

The following table sets forth a summary of our RMAA works contracts that are in progress as at the Latest Practicable Date:

<u>Particulars of the contract</u>	<u>Customer</u>	<u>Expected construction period</u> <i>(Note 1)</i>	<u>Contract value</u> <i>(HK\$'000)</i>	<u>Percentage of completion as at the Latest Practicable Date</u> <i>(Note 2)</i> <i>(%)</i>	<u>Amount of revenue recognised during the Track Record Period</u> <i>(HK\$'000)</i>
Alteration and addition works for an additional storey on top of existing library for an international secondary school at Nam Long Shan Road, Aberdeen, Hong Kong	Customer E	April 2014 to July 2015 <i>(Note 3)</i>	45,927	78.6	29,690
Space reorganisation of a new entrance of the library for the university located at Pok Fu Lam, Hong Kong	Customer A	April 2015 to December 2015	14,170	0.0	—
Renovation works to private area of a commercial centre at Wilmer Street, Sheung Wan, Hong Kong	Private customer	April 2015 to June 2016	19,700	0.0	—
Renovation works at common area of a commercial centre at Wilmer Street, Sheung Wan	Private customer	April 2015 to June 2016	42,799	0.0	—
Installation of stainless steel laundry racks at Kwai Chung Region	Housing Authority	May 2015 to November 2016	29,238	0.0	—
Installation of stainless steel laundry racks at Kowloon East Region	Housing Authority	June 2015 to September 2016	18,007	0.0	—
Maintenance works for a private building at 977-991, Canton Road, Kowloon	Incorporated owners of a private building	July 2015 to December 2015	3,479	0.0	—
Design, supply and installation of suspension systems with associated works for a university at Hoi Ting Road, Yau Ma Tei	University	June 2015 to December 2015 <i>(Note 4)</i>	6,205	0.0	—
<b>Total</b>			<u>179,525</u>		<u>29,690</u>

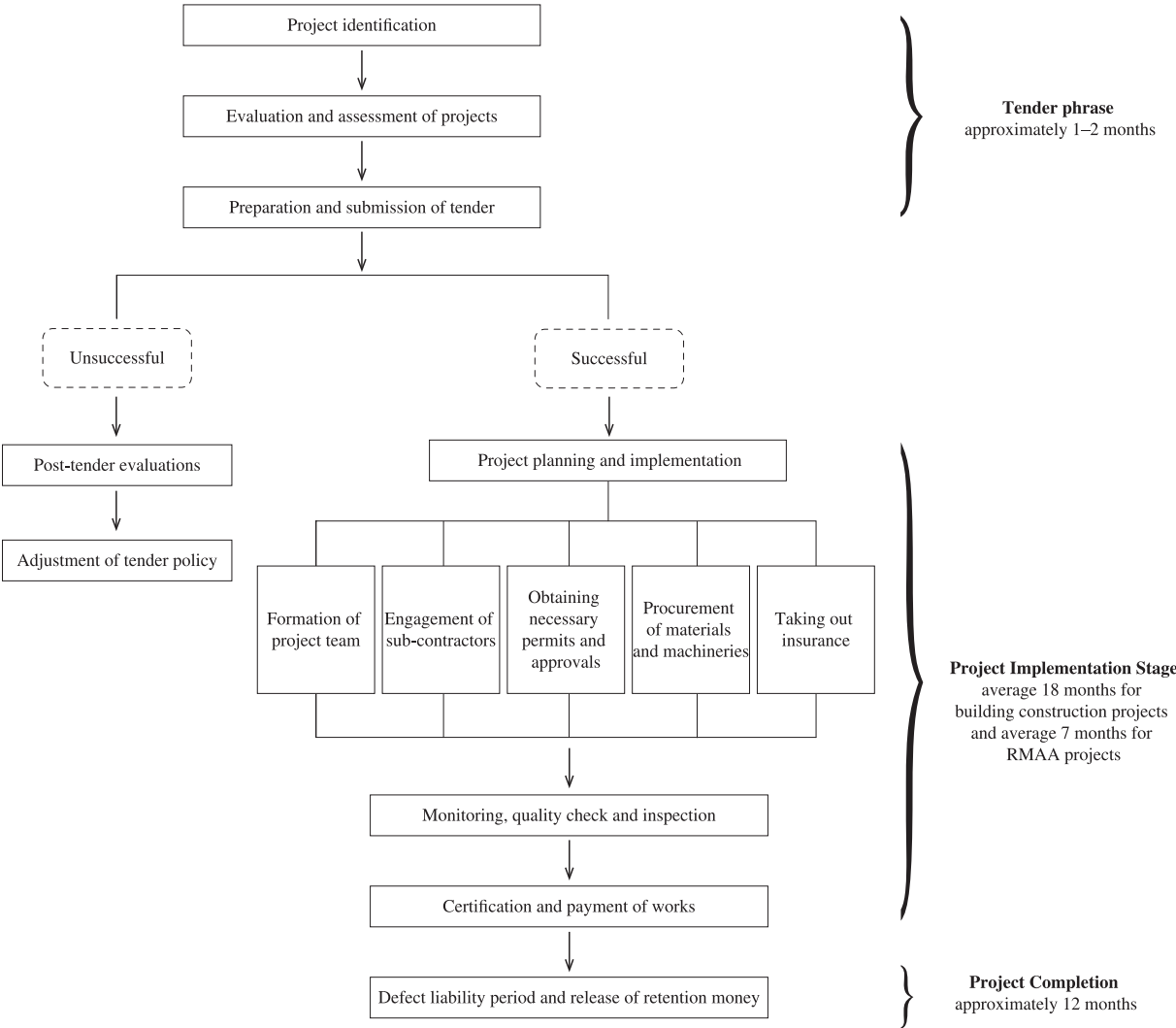
*Notes:*

- Expected construction period in general refers to the expected construction period as specified in the relevant contract, and if an application for delay or extension of time has been submitted and approved by our customers, such delayed or extended construction period would be taken as the expected construction period.
- Percentage of completion is calculated based on revenue recognised as at the Latest Practicable Date divided by contract value.
- Project was scheduled to complete in April 2015. As at the Latest Practicable Date, our Group has submitted an application for extension of time and is pending written approval from our customer. The current expected date of completion is assessed by our Group with reference to the mutual understanding between our customer and our Group.
- Phase 1 is expected to be completed in October 2015 and phase 2, which is expected to take 60 days, will commence upon future instruction of the customer.

**BUSINESS**

**OPERATIONS**

For illustration purpose, a simplified flow diagram of the key operational procedures undertaken by our Group in relation to all of our services is outlined below:



## **BUSINESS**

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### **Operational Procedures**

The following sets out the key operational procedures as illustrated in the above simplified flow diagram:

#### ***Project Identification***

We provide construction services to customers from both the public and the private sectors. We usually identify Government projects through reviewing the tender invitations from various Government departments published on the Gazette. The tender invitation generally includes a brief description of the works required, expected commencement and completion dates of the project, qualifications and conditions to be met by the tenderer for participation, contacts of which forms of tender and further particulars in relation to the project can be obtained, and instructions for tender submissions.

As for projects from non-Government customers, we are generally invited by the customers by way of invitation letters to submit a tender for a potential project. The specifications and drawings are also usually provided to us along with the invitations.

#### ***Evaluation and assessment of projects***

Our tendering department, led by our executive Directors Mr. Lam and Mr. Shut Yu Hang, is responsible for evaluating the projects identified and preparing the tender submission. Upon identifying the gazetted project which our Group is eligible for tender submission or upon receiving a tender invitation, our tendering department will evaluate the manageability and profitability of the project, taking into account factors such as (i) whether our Group has the expertise and qualification required; (ii) the commencement date and duration of the project; (iii) the prevailing market conditions; (iv) the complexity and technicality of the project; (v) the availability of our Group’s resources; (vi) the estimated costs of the project; and (vii) our previous experience with the customer.

We will also conduct a preliminary assessment of the initial cash flow required for the project and our expected cash flow status at the relevant time. Such assessment of cash flow is particularly important to us as a main contractor, since we normally incur net cash outflows at the early stage of a project as we may be required to pay the set-up expenditures before our customers making progress payments.



## **BUSINESS**

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### ***Preparation and submission of tender***

In the event that we consider the project is commercially viable, our tendering department will proceed to prepare for the tender submission. Our tender proposal generally includes (i) tender price; (ii) estimated timeframe for each stage; (iii) site safety supervision plan; (iv) schedule of rates and method of payment; and (v) general conditions of contract.

For Government projects, we must be on their approved contractor lists in order to be eligible to bid for the projects. The qualifications required are set out in the Gazette. Please refer to the paragraph headed “Licenses and Qualifications” in this section for the major licenses and qualifications held by our Group as at the Latest Practicable Date. There may be additional requirements stipulated under certain Government projects or large-scale private projects, such as previous work experience, proven track record of satisfactory performance, qualification and experience of key staff, availability of financial resources, sufficiency of machinery, equipment and plants, standby service for emergency situation and safety management systems. Our Group may be required in such cases to make pre-qualification submission to our customers regarding our eligibility based on the above requirements and undergo pre-qualification assessment, before we are being separately invited to tender.

A site visit will be conducted by our Group to understand the site conditions and constraints. An estimator from the tendering department of our Group will pay visit to the relevant sites at which the project is to be conducted in order to assess the site condition, complexity and technicality of the project. After the site visit, the estimator will prepare a report analysing the expected complexity of works to be involved, expected amount and prices of machineries and equipment required, expected labour needed, and expected time of delivery. In the event that the project requires particular speciality on the part of the main contractor, our Group may also hire external consultants in order to help in assessing the project and making recommendations.

Upon receiving the detailed reports from our estimator and the external consultants (where applicable), our tendering department will prepare the bill of quantities or schedule of rates setting out a breakdown of quotation by items based on the scope of works and specifications set out in the tender invitations. Our Group adopts a cost-plus pricing model for setting our tender price. For the purpose of preparing the budget for a project, we estimate the project costs by considering direct labour costs, sub-contracting fees, construction material costs and insurance costs. We may obtain preliminary quotations from our suppliers, sub-contractors and insurers in order to have a more accurate estimation for the project cost to be involved. It is important for us to accurately set out the budget for the project at the beginning in order to avoid overbudget and ensure adequate profit from the relevant project.

We generally rely on our assessment of costs at the stage of preparing the terms of our initial tender submission to control our overall operational costs and cost overrun. Leveraging our extensive experience in the construction industry, we have generally been able to predict any potential material increase in construction costs and pass such potential increase in costs to our customers by taking into account such potential increase when setting our tender price.

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## BUSINESS

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In addition, during the course of project implementation and execution, based on our regular monitoring, inspection, progress review and control over project expenses and payments, we are able to monitor and control the progress of works of our sub-contractors and budget of each project closely. For further details of our control measures over our sub-contractors, please refer to the paragraph headed “Sub-contractors — Control over sub-contractors” in this section. In the event that the actual costs incurred exceeded the original estimates of the monthly budget, our quantity surveyor will investigate the causes and assess whether any follow-up actions are required. To ensure smooth operation of the relevant project and depending on the materiality and nature of the cost overrun, we may bear part of the additional cost and negotiate with our sub-contractors to adjust their sub-contracting fee on terms reasonably acceptable to our Group. For our Government projects, we may rely on the contract price adjustment mechanism and seek compensation from the relevant Government department for certain additional costs incurred with reference to the relevant Price Indices. For the years ended 31 March 2014 and 2015, the amount of cost overrun were approximately HK\$12.0 million and HK\$1.5 million, respectively, representing approximately 8.1% and 0.8% of our total direct costs during the Track Record Period. Given the low percentage of cost overrun with reference to our total direct costs and our stable gross profit margin of approximately 14.1% and 14.5% for the years ended 31 March 2014 and 2015, our Directors are of the view that the costs overrun experienced by our Group was immaterial to the results of our operations.

It generally takes around one to two months for us to prepare a tender submission. Before the tender submission is made, it will be approved and signed by our executive Directors.

### *Tenders submitted during the Track Record Period*

During the Track Record Period, our projects were generally obtained through tendering. The following table sets out the number of projects we tendered, number of successful projects tendered and our success rate during the Track Record Period:

	<u>For the year ended 31 March</u>	
	<u>2014</u>	<u>2015</u>
Number of projects tendered	143	161
Number of successful projects tendered	19	12
Success rate (%)	13.3%	7.5%

Leveraging the successful completion of the PMQ project and our increased reputation in the RMAA industry resulting from our strategic expansion since 2013, we received increasing number of tender invitations from potential non-Government customers for the year ended 31 March 2015. In response to these tender invitations and in view of maintaining business relationships with such customers, we submitted increasing number of tender submissions which led to the increase in the number of projects tendered for the year ended 31 March 2015.

## **BUSINESS**

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For the year ended 31 March 2014, in order to increase our market share and enhance our presence in the RMAA segment, we had taken an aggressive pricing approach by setting our tender price at cost. Upon solidifying our experience in the RMAA industry, our Directors decided to optimise our tender policy for RMAA projects by targeting larger RMAA projects and setting a tender price that allows a higher profit margin. The average revenue recognised per major RMAA contracts increased from approximately HK\$2.8 million for the year ended 31 March 2014 to approximately HK\$7.8 million for the year ended 31 March 2015. The gross profit margin from our RMAA segment also increased from approximately 0.3% to 19.1% over the Track Record Period. The change in our tender policy coupled with the increased number of tender invitations resulted in the decrease in our tender success rate. Be that as it may, our overall revenue increased by approximately 20.2% over the Track Record Period, reflecting the success in optimising our tender policy during the same period.

Since construction contracts are generally awarded on a project-by-project basis and contractors may take different pricing policies in setting their tender price, our Directors, based on the Ipsos Report, confirm that there is no industry standard in relation to the success rate of tendering in the construction industry. In light of the increase in revenue from approximately HK\$172.2 million and HK\$207.0 million respectively and the stable gross profit margin of approximately 14.1% and 14.5% respectively during the Track Record Period, our Directors consider that the change in approach in setting our tender price and the lower success rate during the same period did not create material adverse effect on our financial condition and results of operations.

### ***Project planning and implementation***

After tender submission, our Group may be interviewed or enquired by the potential customer to clarify certain particulars of our submitted tender. Normally it takes around one to five months before the result of the tender is made known to us.

As a main contractor, we are responsible for the overall project planning and implementation, which includes arranging all necessary materials and expertise, providing technical know-how required for the works, and carrying out the required project management such that works performed conform to the contractual standard and meet the work schedule. As soon as we are formally engaged by our customer, we will submit a master programme to our customer specifying (i) how the works will be organised, managed, planned, supervised and coordinated; (ii) the methods of construction and the resources that we intend to use to carry out the works; (iii) the names, details and job description of the site management and supervisory team personnel; (iv) the plant, equipment, temporary works we intend to supply, use or construct; and (v) the sequence and timeframe proposed for carrying out the works. The master programme is for the purpose of facilitating the overall management of the project.

## **BUSINESS**

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Upon the master programme being accepted by our customer, we will commence the implementation of the project by (i) forming a project team; (ii) engaging the sub-contractors; (iii) procuring and arranging with suppliers for the requisite materials; (iv) planning and arranging the required machinery to be delivered to the site; (v) obtaining necessary permits and approvals; and (vi) taking out insurances.

### *Forming a project team*

We usually form a project team for each project. Depending on the scale and complexity of the project and any additional requirements imposed by our customers on qualifications of our key staff, our project team generally comprises the following key personnel: general manager, project manager, contract manager, site agent, foreman, quality control engineer, safety officer and quantity surveyor. Our project team is responsible for overall management of our project which includes devising master programmes which set out detailed timeframe for each stage of work, procurement of materials, equipment and machinery, engaging sub-contractors, quality control of works carried out by our workers and the sub-contractors and co-ordination with our customers or their consultants. Our project team will also from time-to-time report to our Directors on the project status and any difficulties encountered. Our Directors and general manager will closely monitor the progress of the project on a continuous basis to ensure compliance with the statutory requirements and specifications of our customers.

Set out below are some general duties performed by our key personnel during the implementation stage of the projects awarded to us:

(i) General manager

Mr. Shut Yu Hang, who is also our executive Director, is our general manager and is mainly responsible for the overall planning, implementation and supervision of the project and the selection of appropriate personnel, suppliers and sub-contractors for the execution of the project. For further details in relation to the qualifications and background of Mr. Shut Yu Hang, please refer to the section headed “Directors, Senior Management and Employees — Directors” in this document.

(ii) Project manager

Our project manager is mainly responsible for appointing site staff, arranging site meetings with other members of the project team, suppliers and sub-contractors on project progress, ensuring the compliance with contractual and statutory requirements and our quality, environmental and safety policies, reviewing performance of sub-contractors and suppliers, reporting to our Directors and general manager on project status and issues, and attending progress meeting to report the project progress to our customer.

## **BUSINESS**

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(iii) Site agent

Our site agent is mainly responsible for supervising workers on site, procuring materials, equipment and plant required, supervising and coordinating the works of sub-contractors, inspecting fieldworks, monitoring the work progress, communicating with our foreman about each project’s detailed operations, and reporting to the project manager for the project status and issues.

(iv) Foreman

Our foreman is mainly responsible for supervising our workers and sub-contractors on site, maintaining construction programme, implementing and monitoring the compliance of our quality procedures and health and safety measures, arranging the supply of materials, equipment and plant, and reporting to the site agent for the project status and issues.

(v) Safety officer

Our safety officer is mainly responsible for performing daily check and inspection on site safety, monitoring the compliance of site staffs with the site safety instructions and our safety guidelines, advising preventative and precautionary measures to site agent about site safety, ensuring site activities are conducted under the applicable safety laws and regulations, and providing safety training courses to all workers on site.

(vi) Quantity surveyor

Our quantity surveyor is mainly responsible for preparing the interim payment application, performing valuation of variation orders received from our customer, preparing final accounts, keeping records loss and expenses, preparing claims for insurance, preparing sub-contractors’ interim payment, inspecting the work progress on the site, measuring the quantities of materials required and coordinating with the foreman and our purchasing department for materials ordering, executing site measurement works, and maintaining records of abortive work.

(vii) Building services coordinator

Our building services coordinator is mainly responsible for coordinating and monitoring works to be undertaken by nominated sub-contractors, arranging regular site meetings with nominated sub-contractors, ensuring the carrying out of quality control measures on materials, equipment and machinery procured and communicating with our customers about each project’s detailed operations.

## **BUSINESS**

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### (viii) Environmental officer

Our environmental officer is mainly responsible for preparing and implementing the environmental management policy of our Group, advising the measures to be taken in implementing the environmental management policy, carrying out weekly inspections at sites to identify potential hazards to the environment, providing environmental training to the staff and workers on sites and compiling monthly environmental report for submission to our customers.

### *Engaging the sub-contractors*

During the Track Record Period, we generally acted as the main contractor in our projects. Our Group subcontracts various parts of the project by trade on a back-to-back basis to our sub-contractors in Hong Kong in order to minimise the number of employees employed directly by our Group, increase labour mobility and bring about cost efficiency. The works we sub-contract to our sub-contractors are generally labour intensive or require specific skill sets, such as demolition, hoarding, concreting, painting, redecoration and roofing.

The scope of works to be sub-contracted by our Group can be classified into labour only, labour and plants, labour and materials and materials and/or plants only. For agreements specifying labour only and materials and/or plants only, the sub-contractors are only required to provide the requisite labour or materials and/or plants required and our Group will provide the other materials, plants or labour (as the case may be) to the sub-contractors to enable them to carry out the works delegated. For agreements specifying labour and plants and labour and materials, our sub-contractors will equip themselves with all the necessary plant, materials and equipment.

We oversee the carrying out of the works by our sub-contractors in order to ensure the works completed are in accordance with the specifications, requirement and time-frame under the relevant contract. With the engagement of sub-contractors, we are able to focus on quality assurance and overall project management without the need for keeping a significant pool of workers and technical staff under permanent employment, which in turn allow us to deploy our resources in a more cost-effective manner.

For further details on selections of sub-contractors and our sub-contracting arrangement, please refer to the paragraph headed “Sub-contractors” in this section.

### *Procurement of materials*

Despite our sub-contractors are generally required to equip themselves with the necessary materials for completing the works delegated to them, in order to ensure the quality of the materials to be used meets our customer’s expectation and conforms to contractual requirement, our Group may purchase certain materials for our sub-contractors. Where we

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require our sub-contractors to equip themselves with the necessary construction materials, the costs of materials is generally included into the sub-contract price. The major materials we purchase for our sub-contractors include concrete and steel.

The materials we purchased are generally sent to the site directly by our suppliers. Our Group does not keep any materials as our inventory as the materials are procured on a project-by-project basis in accordance with the project specifications.

### *Procurement of machinery*

Most of the building construction works in our projects require the use of machinery. Our sub-contractors are normally required to equip themselves with the necessary machinery for carrying out their works. For details on our machinery, please refer to the paragraph headed “Machinery” in this section.

### *Obtaining necessary permits and approvals*

Our Group, as a main contractor, is required to obtain certain environmental permits and approvals in accordance with the applicable laws and regulations prior to commencement of a project. Our safety and environmental department is responsible for perusing the specifications set out in the contract and deciding what permits and approvals are required. We will then apply to the relevant Government departments to obtain the requisite permits and approvals in relation to air pollution, waste disposal, noise pollution and others pursuant to environmental protection requirements. For further details of the necessary permits and approvals to be obtained by our Group, please refer to the paragraph headed “Regulatory Overview — Laws and Regulations in relation to Environmental Protection in Hong Kong” in this document.

### *Taking out insurances*

Before the commencement of a project and in order to comply with the relevant laws and regulations in Hong Kong, our Group acting as the main contractor takes out the employees’ compensation insurance and contractor’s all risks insurance for the entire project. For further details of our insurance policy, please refer to the paragraph headed “Insurance” in this section.

### *Monitoring, quality check and inspection*

Our project manager prepares progress reports to our Directors and general manager on a bi-monthly basis. Such progress reports include works completed as of the date, issues encountered by workers and sub-contractors, any risks in delaying the timetable, actions to be taken for compliance with the expected timeframe and follow-up matters for the project. We will also hold progress meetings with our customer throughout the project where our project manager will report the progress our the customer and discuss the major issues encountered.

## **BUSINESS**

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In the course of implementation and execution of the project, our project management team will carry out regular quality check and inspection in order to ensure that works done by our sub-contractors conform to the contractual specifications. Our customers may also conduct inspection from time to time. Our Group has been awarded with ISO 9001:2008 for our quality management system since 2002. For further details of our quality assurance procedure, please refer to the paragraph headed “Quality Assurance” in this section.

### ***Certification and payment of works***

Our Group recognises revenue based on the stage of completion of our works. We receive progress payment from our customers pursuant to the respective contractual terms. Our Group normally prepares a statement setting out our estimate of the valuation of the work completed in the preceding month and submits the statement together with the payment application to our customers on a monthly basis. Upon receiving our payment application and after examination, the architect of our customer will issue an interim certificate certifying the works completed in the preceding month, which normally takes around 21 days from the date of our payment application. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 21 days from the date of the interim certificate. Payment is usually made by way of cheque or bank transfer in Hong Kong dollars.

### ***Defect liability period and retention money***

#### ***Defect liability period***

It is the common practice in the industry that a defect liability period is generally required by our customers, during which we are responsible to rectify all works defects identified by the architects of our customers. When our customer is satisfied that the works have been substantially completed and have passed all inspections and tests required to be carried out under the contract, our customer will issue a practical completion certificate. The defect liability period is generally 12 months from the date of such certificate. During the defect liability period, the architect of our customer will provide us with schedules of defects from time to time and we are required to rectify all defects to its satisfaction within a reasonable time. We shall also finish all items of work that have not been completed when the practical completion certificate is issued. Where our Group fails to rectify the defects identified or to complete the unfinished items of work before the expiry of the defects liability period, our customer is entitled to deduct the contract sum payable to our Group taking into account the costs, expenses and damages which may be incurred by our customer owing to such failures.

We require a back-to-back defects liability and maintenance period from our sub-contractors. If there are any works defects found by our customers, the relevant sub-contractor is in general responsible for rectifying the works defects in accordance with the back-to-back defects liability clause of the sub-contracting agreement with our Group and bearing all the costs incurred in rectifying the works defects. At the end of the defect liability period and



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upon our customer confirming that we have completed all the works and rectified all defects identified to their satisfaction, a maintenance certificate will be issued by our customer and we shall be discharged from any further obligation to carry out any work and/or rectification. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material claims by our customers in respect of any defective works, and therefore we have not made any provision for repair and maintenance costs in respect of defective works during the defect liability period.

### *Retention money*

In line with industry practice, there is generally a contract term for the customer to secure our Group’s due performance by holding up retention money from the progress payment. The retention money is normally retained from each progress payment to our Group in accordance with a predetermined percentage stated in the contract. As for contracts with the Government and quasi-Government organisations, the certified value retained at each stage is generally 1% of progress payment, subject to a limit of retention fund of not more than 1% of the total contract sum. As for contracts with private sector customers, the certified value retained at each stage is generally 5–10% of progress payment, subject to a limit of retention fund of not more than 5% of the total contract sum. Subject to the confirmation from the architects of our customers regarding satisfaction with our works, the retention money will generally be released to us after the expiry of the defect liability period.

### *Surety bonds*

As a security for our due and faithful performance under the relevant contract, our non-Government customers generally require our Group to provide surety bonds in an amount not exceeding 10% of the contract sum issued by a bank or insurance company upon the project being awarded to our Group. As at the Latest Practicable Date, our Group had provided surety bonds in the total amount of approximately HK\$4.6 million issued by banks or insurance companies in favour of some of our non-Government customers. In the event that we failed to provide satisfactory performance to our customers to whom the surety bonds have been given or fail to observe the terms, conditions and specifications under the contract with our non-Government customers, such customers are entitled to seek compensation from the banks or insurance companies for financial losses incurred not exceeding the bond amount, and our Group will be required to reimburse the banks or insurance companies for any claims paid. During the Track Record Period, our Group has not received any material claims from the banks or insurance companies in relation to any compensation paid to our customers under our surety bonds.

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### *Liquidated damages*

Our customers are usually entitled to seek liquidated damages compensation from us if we fail to complete the works within the specified completion date. Liquidated damages are typically levied at a rate provided in the relevant contract for each day of delay. During the Track Record Period, our Group has not received any material claims or complaints from our customers in relation to liquidated damages against our Group.

### **Duration of our projects**

The duration of our construction projects are affected by a number of factors, including but not limited to expectation of our customers, geological conditions, technical complexity, input of machines and labour and variation of works, and thus can vary widely. The expected project duration and completion time of a project is usually provided in the contract. The average duration of our building construction projects completed during the Track Record Period was 18 months and the average duration of our RMAA projects completed during the Track Record Period was 7 months.

## **CUSTOMERS**

### **Major customers**

The following table sets forth a breakdown of our total revenue, gross profit and gross profit margin during the Track Record Period:

	<b>Revenue for the year ended 31 March</b>			
	<b>2014</b>		<b>2015</b>	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
Building construction	143,540	83.3	134,281	64.9
RMAA works	28,681	16.7	72,750	35.1
Total	<u>172,221</u>	<u>100.0</u>	<u>207,031</u>	<u>100.0</u>

	<b>For the year ended 31 March</b>					
	<b>2014</b>			<b>2015</b>		
	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit margin</b>
	<b>HK\$'000</b>	<b>%</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>	<b>%</b>
Building construction	24,171	99.7	16.8	16,197	53.8	12.1
RMAA works	80	0.3	0.3	13,881	46.2	19.1
Total	<u>24,251</u>	<u>100.0</u>	<u>14.1</u>	<u>30,078</u>	<u>100.0</u>	<u>14.5</u>

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## BUSINESS

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During the Track Record Period, our major customers include the Government, quasi-Government organisations, universities, schools, institutions and incorporated owners of private properties. During the Track Record Period, total revenue of our Group amounted to approximately HK\$172.2 million and HK\$207.0 million respectively. A significant portion of our revenue was derived from the Government and quasi-Government organisations. For the years ended 31 March 2014 and 2015, revenue derived from the Government and quasi-Government organisations accounted for approximately 90.8% and 74.0% of our total revenue.

For the years ended 31 March 2014 and 2015, revenue derived from our Group’s largest customer accounted for approximately 82.3% and 51.0% of our total revenue. For the years ended 31 March 2014 and 2015, revenue derived from our Group’s top five largest customers accounted for approximately 96.2% and 96.1% of our total revenue.

During the Track Record Period, our Group’s top five largest customers are all Independent Third Parties. None of our Directors, their respective close associates or our Company’s existing Shareholders who will be interested in more than 5% of our Company’s issued share capital immediately following the completion of the [REDACTED] and the [REDACTED] has any interest in any of our Group’s top five largest customers for the years ended 31 March 2014 and 2015.

Set out below is a breakdown of our revenue by major customers during the Track Record Period:

*For the year ended 31 March 2014*

<u>Rank</u>	<u>Customer</u>	<u>Background of customer</u>	<u>HK\$'000</u>	<u>% of total revenue</u>	<u>Type of services provided</u>	<u>Length of relationship with our Group (year(s))</u>
1	Architectural Services Department	Government department	141,736	82.3	Building construction and RMAA	20
2	Housing Authority	Government department	10,048	5.8	RMAA	16
3	Customer A	A university on Hong Kong island	9,241	5.4	RMAA	17
4	Customer B	A statutory body in Hong Kong with focus on housing development	3,350	1.9	RMAA	7
5	Customer C	A statutory body in Hong Kong for promoting safety and health at work and sustaining the workforce	1,295	0.8	RMAA	4.5
<b>Five largest customers combined</b>			<b>165,670</b>	<b>96.2</b>		

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*For the year ended 31 March 2015*

Rank	Customer	Background of customer	HK\$'000	% of total revenue	Type of services provided	Length of relationship with our Group (year(s))
1	Customer D	A statutory body in Hong Kong with focus on managing all the public hospitals and institutes	105,616	51.0	Building construction	1
2	Architectural Services Department	Government department	42,529	20.5	Building construction and RMAA	20
3	Customer E	An international secondary school at Nam Long Shen Road, Aberdeen	29,690	14.3	Building construction	1
4	Customer A	A university on Hong Kong island	10,841	5.2	RMAA	11
5	Customer F	A private primary school at Kwong Lee Road, Sham Shui Po	10,310	5.0	RMAA	1
Five largest customers combined			198,986	96.0		

During the Track Record Period, some of our customers awarded more than one project to our Group. The number of major customers with projects of contract value exceeding HK\$1.0 million contributed to our revenue was 7 and 12 for the years ended 31 March 2014 and 2015 respectively. The increase in number of customers during the Track Record Period was due to our expansion in RMAA business which broadened our customer base.

### Key terms of contracts with customers

During the Track Record Period, we entered into legally binding service contract with our customers on project-by-project basis upon our customers awarding the tender to our Group. We do not enter into any long-term contract with any of our customers. The key terms of the contracts with our customers are set out below:

- (i) **Scope of work:** the scope of work is described and reference is made to detailed specifications and drawings annexed to the contracts. Nevertheless, the contracts usually stipulate that the scope of works described are not to be treated as exhaustive. Our Group is required study all relevant documents and satisfy ourselves as to the full extent and nature of works to be completed;
- (ii) **Contractor's obligations:** as the main contractor of a project, our Group shall be responsible for, among other things, (i) organising, managing, planning and supervising the carrying out of works; (ii) coordinating with our customer, sub-contractors and suppliers; (iii) providing and maintaining a safe site for works; (iv) carrying out the works using materials, goods and workmanship of the types, standards and quality specified in the contract; and (v) carrying out the maintenance of equipment, plants and machinery where required;

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- (iii) **Insurance:** we are required to effect and maintain employees’ compensation insurance in compliance with the provisions of the Employees’ Compensation Ordinance in the joint names of our Group, our sub-contractors and their respective sub-contractors of all tiers. We are also required to maintain contractors’ all risks insurance that cover the basic scope as individually provided in each contract;
- (iv) **Progress payments:** we generally submit interim payment applications to our customers on a monthly basis containing a statement setting out our estimate of the gross valuation of the work we have performed in the preceding month. Upon receiving our interim payment application, the architect of our customer shall verify such valuation of work performed and issue an interim certificate within 21 days. Within 21 days after the issue of the interim certificate, our customer will make payment to us based on certified sum stipulated in such certificate, deducting any retention money to be retained by our customer in accordance with the contract;
- (v) **Retention money:** a portion of progress payment is generally hold up by our customers to secure the due performance of our Group. As for contracts with the Government and quasi-Government organisations, the certified value retained at each stage is generally 1% of the progress payment, subject to a limit of retention fund of not more than 1% of the total contract sum. As for contracts with private sector customers, the certified value retained at each stage is generally 5–10% of the progress payment, subject to a limit of retention fund of not more than 5% of the total contract sum. In general, the retention money will be released to us after the expiry of the defect liability period subject to the confirmation from our customers regarding satisfaction with our works;
- (vi) **Security and other protections for customers:** our non-Government customers generally require our Group to obtain guarantee, in the form of surety bond, of an insurance company or bank approved by the architect of our customers to be jointly and severally bound with our Group for our due performance under the contract. The surety bonds provided by our Group during the Track Record Period are generally in an amount not exceeding 10% of the contract sum which will generally be released to our Group after practical completion of the project;
- (vii) **Defect liability period:** during the defect liability period, our Group shall rectify all defects or faults identified by the architect of our customer from time to time within reasonable time. In the event that our Group failed to comply with the architect’s instructions, our Group may be liable to indemnify the costs and expenses incurred by our customer in rectifying such defects and faults. A reasonable deduction in the contract sum payable to our Group may also be made for the defects and faults not rectified;
- (viii) **Orders for variations:** our customer may issue instructions ordering variation to the design, quality or quantity of the works in the course of our performance of the relevant contracts. Where the work for variation is the same as or similar in character to and is carried out under same or similar conditions to work prescribed in the contract, the rate for the works under the variation order shall accord with the provision of the schedule of

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rates as provided in the contract. Should there be no equivalent items or similar items under the construction contract for reference, our customer and our Group shall negotiate the adjustment in contract price based on reasonable cost and profit. In the event that the parties failed to agree on the price at which the variation works are performed, our customer shall be entitled to fix the price which, is in their opinion, reasonable;

- (ix) **Contract price adjustment mechanism:** for our Government and quasi-Government projects, there is generally a contract price adjustment mechanism (both upward and downward adjustments) for adjustment to the contract sum in accordance with movements in the costs of labour and materials. The adjustment in contract price is calculated based on the difference between the indices of costs of construction labour and materials at the time of tendering and the current values of these indices at the time of payment in accordance with a predetermined relative proportion for each cost index. For the purpose of the contract price adjustment mechanism, references are generally made to the certain price indices compiled and published by the Census and Statistics Department of the Government such as the index for the average daily wages of workers engaged in the public sector construction projects and the index for the average wholesale prices of selected building materials. During the Track Record Period, due to the escalation in costs of labour and materials, our Group was able to trigger the contract price adjustment mechanism in one project and adjusted the total contract sum upward by approximately HK\$18.0 million;
- (x) **Liquidated damages:** in the event that our Group fails to complete the works by the specified completion date, our Group shall pay liquidated damages to our customer at a fixed rate on a daily basis until such works are substantially completed; and
- (xi) **Termination:** our customers are generally entitled to terminate the contract under the conditions such as:
- a. our Group completely or substantially suspending the carrying out of the works without good cause;
  - b. our Group not proceeding regularly and diligently with the works; and
  - c. our Group not complying with the instructions of the architect of our customer.

Our Group is generally entitled to terminate the contract under the conditions such as:

- a. our customer not paying an amount certified due to us within the period for payment as stated in the contract;
- b. our customer postponing the date of commencement of the whole or substantially the whole of the works for a prescribed period; and
- c. our customer causing the carrying out of the whole or substantially the whole of the works to be suspended for a prescribed period.

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### Customer concentration

For the year ended 31 March 2014 and 2015, our top five customers accounted for approximately 96.2% and 96.1% of our total revenue respectively. In particular, approximately 82.3% and 51.0% of our total revenue were attributable to our largest customer for each of the year ended 31 March 2014 and 2015 respectively. For the year ended 31 March 2014, our Group derived approximately 83.4% of our total revenue from one project, namely the PMQ Project. Despite such customer concentration, our Directors consider that we are not reliant on any single customer because:

- (i) in respect of our construction services and, in particular, our building construction services, it is not uncommon for a single project to have a relatively large contract sum such that a small number of projects can contribute to a substantial amount of our revenue. In addition, our Group is a Group C (confirmed) contractor under the Contractor List of the WDBD and in general can only tender for public works contracts of any values exceeding HK\$185.0 million but not less. Therefore, if we were awarded certain construction project, in particular building construction project, the relevant customer may easily become one of our largest customers in terms of revenue contribution to our Group;
- (ii) the number of construction projects that can be executed by our Group simultaneously is limited by our resources, including but not limited to the capacity of our staff, the availability of suitable sub-contractors and the cash-flow available for the issue of surety bonds. Our strategy has therefore been to focus on deploying our resources towards tendering and competing for sizeable and profitable projects which has, in turn, inevitably resulted in a concentration of customers during the Track Record Period;
- (iii) in order to capture the growth of the RMAA industry, our Group strategically expanded into the RMAA market in 2013, which broadened our customer base. The number of customers with major projects of contract value exceeding HK\$1.0 million attributed to our revenue increased from 7 for the year ended 31 March 2014 to 12 for the year ended 31 March 2015. In the future, we plan to continue to broaden our customer base by strengthening our RMAA segment and expand our building construction service capacity to cover “design and build” projects. For further details of our business strategies, please refer to the paragraph headed “Business Strategies” in this section; and
- (iv) our Group has demonstrated over the Track Record Period that we have the ability to compete for construction projects from new customers. For the year ended 31 March 2015, three of our top five customers were new customers who have awarded one new building construction and two new RMAA projects to our Group respectively which in aggregate accounted for approximately 70.3% of our total revenue for the year ended 31 March 2015.

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### **SALES AND MARKETING**

During the Track Record Period, our business opportunities arose from reviewing the tender invitations from various Government department published on the Gazette or receiving invitation for tender from other customers. Due to our long history and presence in Hong Kong, our proven track record and our well-established relationship with our existing customers, we are able to rely on our existing customer base, reputation and customer referrals such that we do not rely on promotional activities. Our Directors and general manager are responsible for liaising and maintaining our relationship with customers.

### **PRICING POLICY**

Our Group adopts a cost-plus pricing model for setting our tender price. Our pricing policy takes into account various factors including: (i) the nature, scope and complexity of the project; (ii) estimated direct labour costs; (iii) estimated sub-contracting charges; (iv) estimated type and number of machinery required; (v) estimated type and amount of materials needed; (vi) expected project timetable provided by customer; (vii) prevailing market condition; and (viii) relationship with and background of our customer.

It is important for us to accurately assess the cost (taking into consideration potential increases in material costs and labour costs) for the project prior to entering into contract with our customer in order to avoid overbudget and ensure adequate profit from the relevant project. Our Group has in place cost assessment procedures in order to have an accurate assessment and analysis of the costs to be incurred by our Group as the main contractor for the project. Under such procedures, our Group would obtain pre-bid quotations from our suppliers and sub-contractors for preparation of the bills of quantity or schedule of rates which would form part of our tender submission. The pre-bid quotations allow our Group to have a more accurate estimation for the project cost to be involved.

There is usually a variation order clause in the contract with our customers which allows our Group to execute additional works or modifying the original scope of works ordered by our customer. In the event that our customer orders variations of works, our quantity surveyor will ascertain the amount of additional cost and expenses which is subject to the written approval of the architects or quantity surveyors appointed by our customers. The general principle for the assessment is that any additional work carried out which is the same as or similar in character to and executed under the same or similar conditions and circumstances to any item of work priced in the original contract shall be valued at the rate set out in the original contract for such item of work. Should there be no equivalent items or similar items under the construction contract for reference, our customer and our Group shall negotiate the adjustment in contract price based on reasonable cost and profit. In the event that the parties failed to agree on the price at which the variation works are performed, our customer shall be entitled to fix the price which, is in their opinion, reasonable. During the Track Record Period, our Group has not engaged in any material claims or disputes with our customers in relation to value of additional works performed by our Group.



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### **SUB-CONTRACTORS**

Our Group generally acted as the main contractor in our projects during the Track Record Period and was accountable to our customers for the execution and overall management of the projects. For the purpose of maximising our cost efficiency and utilising expertise of other specialist contractors, we generally engage sub-contractors to perform works in our projects by trade on a back-to-back basis. During the Track Record Period, works that we delegated to our sub-contractors include demolition, hoarding, concreting, painting, redecoration and roofing.

We are generally not limited under the contract with our customers in the use of sub-contractors for the performance of works. Our major sub-contractors include both private companies and sole proprietors which have the skills and manpower available to carry out works sub-contracted to them. For the years ended 31 March 2014 and 2015, our Group engaged 33 and 40 sub-contractors respectively, all of whom were located in Hong Kong. The increase in number of sub-contractors for the year ended 31 March 2015 was mainly attributable to the expansion of our RMAA business during the Track Record Period which required more diversifying nature of works to be performed by our sub-contractors and hence increased number of sub-contractors from different trades was required. During the Track Record Period, we did not experience any material shortage or delay in the supply of materials or services that we required from our sub-contractors. Our Directors consider that the possibility of material shortage or delay is low given the availability of sub-contractors available in the market. Save as disclosed in the paragraph headed “Litigation and Potential Claims - Litigation against our Group settled (either by way of court judgment or settlement during the Track Record Period and up to the Latest Practicable Date)” in this section, our Group did not receive any material claim or complaints from our customers in relation to the works performed by our sub-contractors.

#### **Selection criteria of sub-contractors**

Our Group maintains a list of approved sub-contractors which is updated on an ongoing basis and we generally only select sub-contractors from such approved sub-contractors list for our projects. Our sub-contractors are approved and selected based on their technical expertise, human resources, financial background, management structure, past performance, safety record, records of compliance with health, safety and environmental law, rules and regulations and reputation. As at the Latest Practicable Date, there were 316 sub-contractors on our approved list of sub-contractors.

For certain Government and quasi-Government projects, our customers may retain its rights to nominate a sub-contractor to fulfil certain parts of the work under the relevant contracts. Where a sub-contractor is nominated by our customer, our Group generally retains the right to make reasonable objection and is not required to enter into a sub-contract with such nominated sub-contractor on grounds such as (i) the nominated sub-contractor has poor safety record; (ii) the nominated sub-contractor does not have the financial standing, solvency, technical competence or reliability to carry out the works to be delegated to it; (iii) given the relevant contract sum, it is not financially viable to engage such nominated sub-contractor; and (iv) the programme for carrying out the sub-contracted works by the nominated sub-contractor is unreasonable with reference to our master programme and schedule. In addition, such nominated sub-contractors are also subject to the

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same quality and safety measures we impose on other sub-contractors, the details of which are expressed in the below paragraphs. In the event that the nominated sub-contractor caused delay to or disruption in the carrying out of the works, our Group is entitled to seek an extension of time from the relevant customer without subjecting to any liquidated damages or penalty for delay.

### Major sub-contractors

During the Track Record Period, our Group’s sub-contracting fees amounted to approximately HK\$99.3 million and HK\$123.8 million respectively, representing approximately 67.1% and 70.0% of our Group’s total direct costs. During the Track Record Period, our Group’s largest sub-contractor accounted for approximately 13.6% and 14.2% of our Group’s total direct costs, and our Group’s top five largest sub-contractors accounted for approximately 41.2% and 38.1% of our Group’s total direct costs respectively. Please refer to the section headed “Financial Information — Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income — Direct Costs” for further details in relation to the sensitivity analysis illustrating hypothetical changes of sub-contracting fee to our profit during the Track Record Period. The credit terms granted to our Group by our sub-contractors range from 30 to 45 days and we generally settle our payment by way of cheque and trade receivables.

During the Track Record Period, our Group’s top five largest sub-contractors are all Independent Third Parties. None of our Directors, their respective close associates or our Company’s existing Shareholders who will be interested in more than 5% of our Company’s issued share capital immediately following the completion of the [REDACTED] and the [REDACTED] has any interest in any of our Group’s top five largest sub-contractors for the years ended 31 March 2014 and 2015.

Set out below is a breakdown of the details and amount of sub-contracting fees of our top five largest sub-contractors during the Track Record Period:

*For the year ended 31 March 2014*

Rank	Sub-contractor	Sub-contracting work performed HK\$’000	Approximate percentage to the total direct costs of our Group %	Services or materials provided	Length of relationship with our Group (year(s))
1	Sub-contractor A	20,131	13.6	Building construction services	3
2	Sub-contractor B	12,527	8.5	Provision of structural steel and glass canopy	3
3	Sub-contractor C	12,213	8.3	Demolition, hoarding, concreting, painting, builder works and provision of plaster, formwork steel and metal	9
4	Sub-contractor D	10,641	7.2	Provision of fire related windows, fire related ceiling and smoke barrier	3
5	Sub-contractor E	5,454	3.7	Provision of windows	3
	<b>Five largest sub-contractors combined</b>	<u>60,966</u>	<u>41.2</u>		

**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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*For the year ended 31 March 2015*

<u>Rank</u>	<u>Sub-contractor</u>	<u>Sub-contracting work performed</u> HK\$'000	<u>Approximate percentage to the total direct costs of our Group</u> %	<u>Services or materials provided</u>	<u>Length of relationship with our Group</u> (year(s))
1	Sub-contractor F	25,082	14.2	Building services installation	14
2	Sub-contractor G	11,286	6.4	Formwork, rebar, fixing and concreting	1
3	Sub-contractor H	9,338	5.3	Earth works and underground drainage works	8
4	Sub-contractor I	9,391	5.3	Renovation	1
5	Sub-contractor C	<u>12,394</u>	<u>7.0</u>	Plaster, hoarding, demolition and provision of steel and metal	9
	<b>Five largest sub-contractors combined</b>	<u><u>67,491</u></u>	<u><u>38.2</u></u>		

Save as disclosed in the paragraph headed “Litigation and Potential Claims”, during the Track Record Period, we did not have any material dispute or claim with any of our sub-contractors.

### **Sub-contracting process**

In preparing the tender submission for our projects, we have to review the specifications and requirements of the project and evaluate whether our Group has to engage sub-contractors for certain parts of works. Depending on our capabilities, resources, expertise, estimated costs and expected timetable of the project, the number of sub-contractors our Group engages varies from project to project. During the Track Record Period, we generally engage 12 to 16 sub-contractors for each of our building construction projects and 21 to 22 sub-contractors for each of our RMAA projects.

Upon identifying the project which our Group is interested in tendering for, we will provide the drawings and specifications of the project to the selected sub-contractors in order to get a quotation for the works to be performed by them. The quotations are included in our tender submission and once a project is awarded to us, we will negotiate the terms of the engagement with our sub-contractor based on the quotations submitted.

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Our project team will then set out a detailed execution plan with the sub-contractors for the project to ensure that the sub-contractors can finish the delegated works on time and in accordance with the contract specifications. Our site agent is responsible for the day-to-day monitor and supervision of the works of our sub-contractors.

Our sub-contractor generally makes payment application to us on a monthly basis for the works completed in the previous month. Upon receiving the interim payment application, our quantity surveyor will inspect the work done by our sub-contractor and issue an approval form certifying the value of works completed. After the issuance of the approval form, we will generally make interim payment to our sub-contractors within one month from the date of their application.

### **Key terms of the subcontracting agreement**

We generally enter into legally binding sub-contracting agreements with our sub-contractors on a project-by-project basis. Our sub-contractors are required under such contract to comply with our main contract with our customers by trade on a back-to-back basis. Our Directors are of the view that such arrangement with our sub-contractors is in line with the industry practice and can minimise our liability under the main contract. The key terms of which are set out below:

- (i) ***Scope of work:*** the scope of works to be sub-contracted by our Group can be classified into labour only, labour and plants, labour and materials and materials and/or plants only. For agreements specifying labour only and materials and/or plants only, the sub-contractors are only required to provide the requisite labour or materials and/or plants and our Group will provide other materials, plants or labour (as the case may be) to the sub-contractors to enable them to carry out the works delegated. For agreements specifying labour and plants and labour and materials, our sub-contractors will equip themselves with all the necessary plant, materials and equipment;
- (ii) ***Sub-contracting fee and settlement term:*** where our sub-contractors are required to equip themselves with all the necessary plants, materials and equipment, such extra costs are included in the contract sum and our sub-contractors are generally required to honour the contract sum despite any subsequent increase in the costs of procurement of plants, materials and equipment. Interim payment application shall be submitted by our sub-contractors on a monthly basis upon which our quantity surveyor will certify the works completed by the sub-contractors in the preceding month and interim payment, deducting any retention money to be retained by our Group, will be made;
- (iii) ***Rights and obligations of the sub-contractor:*** our sub-contractors are required to comply with the relevant terms and conditions and perform their works in accordance with the specifications under our main contracts with our customers by trade on a back-to-back basis;

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- (iv) **Defect liability/maintenance period:** we generally require a defect liability/maintenance period of 12 months for both building construction works and RMAA works from our sub-contractors, during which our sub-contractors are responsible to rectify all works defects identified by us or our customers;
- (v) **Retention money:** usually 5 to 10% of each interim payment and up to a maximum limit of 5% of the total contract sum would be retained by our Group as retention money. Generally half of the retention money would be released to our sub-contractors upon completion of all the works to our satisfaction and the remaining balance of the retention money would be released upon the issue of maintenance certificate by us to the sub-contractors;
- (vi) **Liquidated damages:** a liquidated damages clause is generally included such that our Group is entitled to claim for damages for any delay from our sub-contractors. The amount of liquidated damages for each project is determined on a daily basis with reference to the schedule of fixed rates prescribed in the sub-contract;
- (vii) **Sub-subcontracting:** save with our prior written consent, our sub-contractors are generally prohibited from further sub-contracting any works delegated to them;
- (viii) **Insurance:** our Group is responsible for maintaining employees' compensation insurance against the employees of our sub-contractors and any further sub-contractor down the tier whereas our sub-contractors are generally responsible for taking out separate insurance for their plants, machineries and equipment; and
- (ix) **Order for variation:** our Group has the right to order variation and the rate for the works under such variation order(s) shall be determined with reference to the schedules of rates and/or bills of quantity as provided in the relevant contract. Should there be no equivalent items or similar items under the contract for reference, our sub-contractors and our Group will negotiate the adjustment in contract price based on reasonable cost and profit. Where consensus cannot be reached, our Group is entitled to fix the price which, is in our opinion, reasonable.

### Control over sub-contractors

Under the main contract entered into between us and our customers, we are generally liable to our customers for the performance and quality of work done by our sub-contractors, which includes acts, defaults and neglects of the sub-contractors. Since we allow our sub-contractors to further sub-contract the works delegated to them with our prior written consent, we are also liable for the performance of any sub-contractors down the tier. Nevertheless, we require our sub-contractors to rectify all defects or other faults in the works delegated to them within reasonable time after receiving instructions from us, regardless whether they have further sub-contracted the works to any further sub-contractors down the tier.

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Pursuant to the Employment Ordinance, if any wages become due to the employee of our sub-contractors and such wages are not paid within the period specified in the Employment Ordinance, our Group, as the principal contractor, is liable to settle such outstanding wages even without any default on our part. However, such payment of wages is recoverable from our sub-contractor pursuant to the Employment Ordinance. In addition, under the Employees’ Compensation Ordinance, our Group, as the principal contractor, shall be liable to pay compensation to sub-contractors’ employees who are injured in the course of their employment to our sub-contractors. According to the Employees’ Compensation Ordinance, our Group is nonetheless entitled to be indemnified by our sub-contractors who would have been liable to pay compensation to the injured employees. For further details of our major liabilities as the principal contractor under the relevant laws and regulations, please refer to the section headed “Regulatory Overview — Laws and Regulations in relation to Labour, Health and Safety in Hong Kong” in this document. As a further safeguard, our Group would ensure that all sub-contracting contracts to be entered into between our Group and our sub-contractors provide for the right of our Group to claim the costs, expenses, damages, compensation, amounts settled and/or liabilities suffered by our Group, which arise due to non-compliance with the applicable laws and regulations in relation to employment, safety, health and environment by our sub-contractors’ and/or further sub-contractors down the tier. During the Track Record Period, our Group has not received any material claims or complaints by the employees of our sub-contractors or sub-sub-contractors in relation to the default in making payment of wages by such sub-contractors or any sub-contractors down the tier.

Our Group has implemented the following measures to monitor the quality and progress of works delegated to the sub-contractors and further sub-contractors down the tier so to ensure the compliance with the contract specifications and the relevant laws, rules and regulations:

- (i) all of our sub-contractors are classified into different categories depending on their expertise to ensure that our sub-contractors are capable to undertake works of corresponding quality, environmental and risk requirements in a safe manner;
- (ii) our general manager and project manager provide continuous supervision and conduct regular inspection on work progress with the sub-contractors. Daily routine inspection or checking are performed by our site agents or other responsible personnel on sub-contractors’ works in accordance with the manuals of our quality management system;
- (iii) regular and ad hoc meetings are conducted with sub-contractors’ responsible personnel to review their performance;
- (iv) master and short term programmes of work are devised and target milestone dates are set to provide a detailed reference point for how works shall be carried out and when such works shall be completed by the sub-contractors;
- (v) sub-contractors are generally prohibited from further sub-contracting the whole or part of the sub-contracted works to third party without our prior written consent since it will adversely hinder our control over the sub-contractors’ workforce and quality of works;

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- (vi) regular internal meetings are held with our project team members to evaluate our sub-contractors’ compliance with the contractual specifications and timetables; and
- (vii) where our sub-contractors fail to rectify the works in accordance with the contract specifications, our customers are entitled to deduct such costs and expenses incurred by them in rectifying the works from payments to our Group from the retention money maintained by our customers. In such case, the relevant sub-contractors would be fully liable to indemnify our Group against such losses and the sum would be deducted from the retention money retained by us against such sub-contractors.

Based on the above, our Directors are of the view that the risk of losses or claims caused by the sub-standard performance of works or delay in progress by our sub-contractors is low. During the Track Record Period, our Group has not received any material claims or complaints from our customers in relation to the performance of our sub-contractors.

In order to ensure the safety of employees of the sub-contractors and the further sub-contractors down the tier, our Group has also devised the following guidelines for them to follow:

- (i) our site management staff are responsible for inspecting site conditions, closely monitoring the safety performances of our sub-contractors, stopping any unsafe acts and suspending any dangerous operation, and initiating prompt remedial actions to remedy such safety issues on a daily basis;
- (ii) warning letters or improvement notices would be sent to sub-contractors whose safety performances failed to meet our in-house safety guidelines or the relevant statutory safety requirements. In the event of continuous failure to observe such guidelines or requirements, the relevant sub-contractors are suspended from working and we are entitled to seek indemnity against such sub-contractors for all claims, liabilities, losses, costs or expenses incurred by our Group as a result of the breach;
- (iii) safe working cycle is conducted on a daily basis to reinforce the safety awareness of sub-contractors and to monitor in a preventive approach to ensure that any unsafe behaviour or unsafe condition is detected and resolved before it attributes to any accident; and
- (iv) induction safety trainings are provided to all new sub-contractors and specific trainings are held to equip sub-contractors with the requisite knowledge and skills in dealing with safety issues encountered by such sub-contractors during the performance of works specifically delegated to them.

Save as disclosed in the paragraph headed “Litigation and Potential Claims” in this section, there was no material claim of injuries arising from sub-contracting activities during the Track Record Period.

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### MATERIALS AND INVENTORY

Despite our sub-contractors are generally required to equip themselves with the necessary construction materials for completing the works delegated to them, in order to ensure that the quality of the materials to be used meets our customer's expectation and conforms to contractual requirements, our Group may purchase certain materials for our sub-contractors. The major construction materials that our Group procured during the Track Record Period were concrete and steel.

Our purchasing department is responsible for procuring the construction materials that we are required to provide to our sub-contractors for completion of a project. Upon confirming the types and quantities of materials to be procured, our project management team issues purchase order requisitions to our purchasing department. Unless a supplier has already been nominated by our customers, our purchasing department will generally obtain quotations from a number of suppliers for the construction materials in accordance with the purchase order requisitions. With such practice, we are able to enhance our price bargaining power and avoid over-reliance on a single supplier. Our project management team will then review the quotations obtained and select the best quotation that matches our needs.

We have not entered into any long term supply agreements with our suppliers. We generally adopt the following key terms in a standard contract made by us with a supplier for our purchases:

- (i) *Product*: the types of materials that our supplier is required to provide;
- (ii) *Quantity*: the amount of the specified materials that our Group required in that order;
- (iii) *Price*: the unit price and the total price of the materials ordered;
- (iv) *Delivery time and location*: the time and site location to where the materials should be delivered by our supplier. Since we place purchase orders for materials on a project-by-project basis and do not maintain a minimum inventory level, we generally require our suppliers to deliver the materials ordered directly to the site in accordance with our timetable; and
- (v) *Payment terms*: payments are usually settled by cheque or bank transfer in Hong Kong dollars. Our suppliers normally require us to pay deposits upon signing the contract with the remaining balance to be settled within 30 to 45 days upon delivery of the materials.

For the years ended 31 March 2014 and 2015, the materials directly procured by us amounted to approximately HK\$2.7 million and HK\$12.5 million, representing approximately 1.8% and 7.1% of our total direct costs respectively. During the Track Record Period, our Group had not experienced any significant shortage and/or delay in delivery of construction materials by our suppliers causing disruption to our works.



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We did not record any inventory at the end of each financial year during the Track Record Period because (i) construction materials were usually delivered by our suppliers directly to the site of the project for immediate consumption; and (ii) construction materials were acquired on a project-by-project basis in accordance with the specification of a project. We assess the amount and timing of construction materials required in the particular project and procure the relevant amount when needed depending on the work progress. Therefore, we do not keep excess inventory and do not maintain a minimum inventory level.

### **MACHINERY**

Certain parts of the building constructions services we provide may involve the use of machinery. We normally require our sub-contractors to equip themselves with the machinery required for carrying out the works delegated to them and provide the necessary workers for operation of the machinery. Where the use of machinery is required in performing the works delegated and our sub-contractors are responsible for providing such machinery, in general they are contractually required to ensure that all machinery used complies with the relevant statutory safety requirements and our sub-contractors are fully liable for all personal injuries and penalties resulted from such breach of statutory safety requirements. We normally require our sub-contractors to take out separate machinery breakdown insurance covering against physical loss or damage to the machinery on their own.

### **QUALITY ASSURANCE**

Our Directors believe that our success is built on our commitment in providing quality services in a timely manner. In order to ensure that the quality of our works and that of our sub-contractors conform to our customers’ specifications, our Group has established an integrated management system (“**IMS**”) which is certified to be in compliance with the requirements of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 respectively.

The quality control measures under our IMS include:

- taking into account complaints, compliments and feedback from our customers and sub-contractors, quality objectives for our workers and sub-contractors are set and constantly reviewed;
- a work method statement, being document detailing the way a task or process is to be completed, shall be prepared by the project manager and submitted to the architect of our customer for approval before the commencement of works;
- our site management staff and authorised representatives of our sub-contractors are delegated with the primary responsibility of ensuring that all works are carried out in compliance with the approved work method statement;

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- materials procured by our Group or our sub-contractors are inspected and/or tested before use to ensure compliance with the contractual specifications and requirements and relevant statutory requirements;
- mock-up sample of certain materials are required from our suppliers for our review and approval before procurement in order to ensure that the level of workmanship satisfies the standard and expectation of our customers;
- all workers and sub-contractors are required to ascertain that all materials, machinery, plants and equipment are used in accordance with the guidelines and recommendations provided by the providers and/or manufacturers;
- day-to-day site supervision, inspection and testing activities are carried out by our project management team over the works performed by our sub-contractors for the purpose of ascertaining if the service we provided conform to the contractual specifications and requirements;
- in-process inspections and testing on site at various stages of the project are conducted to ensure satisfaction with the requirements of our customers;
- internal audit on our quality management system is performed on an annual basis for the purpose of assessing the extent to which our quality objectives have been achieved and ascertaining the degree of compliance with the ISO9001:2008 standard for quality management; and
- records such as inspection and test records, submissions, approvals and certificates of completion are maintained.

During the Track Record Period, there were no material disputes between our Group and our customers with regard to the quality of work performed by us and/or our sub-contractors.

Personnel responsible for our overall quality assurance include Mr. Lam and Mr. Shut Yu Hang, all being our executive Directors. For details of their biographical information, please refer to the section headed “Directors, Senior Management and Employees — Directors” in this document.

In recognition of our quality services, we had received a number of letters of appreciation from our customers. Please refer to the paragraph headed “Awards and Accreditations” in this section for further details of the major awards and accreditations we received.

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### AWARDS AND ACCREDITATIONS

The following table sets out the major awards and accreditations received by our Group from different Government departments and accreditation organisations in relation to our outstanding performance and quality of work and services:

<u>Year of grant</u>	<u>Description</u>	<u>Awarding organisation/ institution</u>
2015	Certificate for compliance with the requirements of ISO 14001:2004 environmental management system standard applicable to construction of buildings and provision of building maintenance and alteration and addition works <sup>Note 1</sup>	SGS
2015	Certificate for compliance with the requirements of OHSAS 18001:2007 occupational health and safety management systems specification applicable to construction of buildings and provision of building maintenance and alteration and addition works <sup>Note 2</sup>	SGS
2014	Certificate for compliance with the requirements of ISO 9001:2008 quality management system standard applicable to construction of buildings and provision of building maintenance and alteration and addition works <sup>Note 3</sup>	SGS
2011	Letter of Appreciation for the construction of hoarding for Ex-Yuen Long Estate	Housing Authority
2009	Green Contractor Bronze Award for the construction of a secondary school at development in Kwun Tong, Hong Kong	Architectural Services Department
2008	Letter of Appreciation for Good Performance and Site Management of Redecoration Project in Tsz Lok Estate	Private customer
2003	Letter of Appreciation for school improvement programme of a primary school	A primary school at Grampian Road, Kowloon City
1999	Letter of Appreciation for school improvement programme of a secondary school	A secondary school at Wu King Estate, Tuen Mun
1997	Letter of Appreciation for construction of divisional fire station with ambulance facilities in Tung Chung	Works Branch of Government Secretariat of Hong Kong

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*Notes:*

1. Techoy Construction was first accredited with ISO 14001:2004 compliance certification in 2009. Further ISO accreditations were obtained by Techoy Construction in 2012. The current certificate will expire on 16 January 2018.
2. Techoy Construction was first accredited with OHSAS 18001:2007 compliance certification in 2009. Further ISO accreditations were obtained by Techoy Construction in 2012. The current certificate will expire on 16 January 2018.
3. Techoy Construction was first accredited with ISO 9001:2008 compliance certification in 2002. Further ISO accreditations were obtained by Techoy Construction in 2005, 2008 and 2011. The current certificate will expire on 10 December 2017.

The above awards and accreditations may not be necessary for the provision of our services in Hong Kong. However, our Directors believe that they could boost our corporate image and enhance our existing and potential customers' confidence towards the quality of work and service of our Group.

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### EMPLOYEES

As at the Latest Practicable Date, our Group had 45 employees who all stationed in Hong Kong. The table below sets forth the breakdown of the employees of our Group by functions:

	As at 31 March		As at the Latest Practicable Date
	2014	2015	
Management	2	2	2
Tendering	2	2	2
Administration, accounting and finance	6	4	4
Safety and environmental	2	2	2
Purchasing	1	1	1
Project management and execution (including project managers, site agents, foreman, and quantity surveyors))	26	28	28
Direct labour	8	12	6
Total	47	51	45

The remuneration payable to our employees include basic salaries, allowances, pension and discretionary bonuses. The ability to recruit and retain experienced and skilled labour is crucial to our business development and growth. The basic salaries of our employees are generally determined by the employee’s rank, position, qualification, experience and performance. The discretionary bonuses are paid on an annual basis, depending on the duration of services and performance of the individual staff and the profit of our Group in the preceding financial year. We assess the remuneration package offered to our employees on an annual basis to determine whether any adjustment to the basic salaries and bonus should be made. Our staff related costs primarily includes salaries, wages and bonuses, contributions to defined contribution retirement plan and directors’ remuneration. For the years ended 31 March 2014 and 2015, our wages were approximately HK\$6.2 million and HK\$5.3 million respectively, which were charged to our administrative expenses.

We encourage and provide assistance for our employees to attend training programmes and to attain professional certifications or registrations. Our employees also receive in-house training on a regular basis to enhance their technical knowledge including knowledge on industry quality standards, safety standards, engineering and customer sales skills.

During the Track Record Period, our Group had not experienced any significant difficulties in recruiting employees, and had not experienced any significant staff or labour disputes. Our Directors confirm that our Group’s relationship with our employees is satisfactory in general. Our Directors consider that the management policies, working environment, career prospects and

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benefits extended to our employees have contributed to building a good employee relations and employee retention. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by our employees.

### **CREDIT MANAGEMENT**

We submit to our customer payment application for interim payment on a monthly basis in respect of the value of work we performed in the preceding month. The applications generally include the estimated fee and description of our work done, the list of construction materials delivered to the site. The architect of our customer will then perform inspection and certify the value of work done for the preceding month. The interim certificate will usually be issued to us by our customer within 21 days from the date of our interim payment application and our customer will usually make payment within 21 days after the date of interim certificate in accordance with the relevant contract, deducting any retention money to be retained by our customer at the specified rate in accordance with the relevant contract.

Our sub-contractors normally also make payment application for interim payment on a monthly basis. Once our quantity surveyor verified the value of works completed by the relevant sub-contractor against its payment application, we will make payment accordingly within one month, deducting such retention money to be retained by our Group at the specified rate in accordance with the relevant sub-contract.

Our Group’s credit risk is primarily attributable to our trade receivables, other receivables and bank balances. Since our major customers are mainly Government departments and/or organisations, our Directors are of the view that our credit risk is low. In order to minimize the credit risk with our non-Government customers, before we provide credit facilities to any new non-Government customer, our Group carries out a credit investigation on such customer which includes performance of credit search, assess to and review of its financial information and obtain advice from business partners in relation to the potential customer. The level of credit granted must not exceed a predetermined level set by our Directors and the approval for providing credit facilities to the customer must be documented in writing. Our Group also performs ongoing credit evaluations of our customers. Any excess over credit limits must be approved by our Directors in writing. In addition, our accounts department follows a set of monitoring procedures to ensure that follow-up steps are taken for collection of receivables. Our Group also reviews the recoverable amount of each individual trade and other receivables regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. During the Track Record Period, no impairment loss on trade and other receivables is made. For further details in relation to the concentration of credit risk during the Track Record Period, please refer to the section headed “Financial Information — Financial Risk Management — Credit Risk” in this document.

As at 31 March 2014 and 2015, our Group’s trade receivables were approximately HK\$7.7 million and HK\$20.7 million respectively. In addition, the trade receivable turnover days for the years ended 31 March 2014 and 2015 were 26 and 25 days respectively. For further analysis of our trade receivables and trade receivables turnover days, please refer to the section headed “Financial Information — Net Current Assets — Trade Receivables” in this document.

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### **SEASONALITY**

Our Directors believe that the building construction and RMAA industry in Hong Kong does not exhibit any significant seasonality.

### **INSURANCE**

As a main contractor, our Group is legally required under the Employees’ Compensation Ordinance to take out employees’ compensation insurance to cover compensation and costs liable by our Group for personal injuries of our own employees and the employees of the sub-contractors in the course of their employment with us or with our sub-contractors. In compliance with the Employees’ Compensation Ordinance, we generally take out and maintain employees’ compensation insurance for each project with the coverage of a maximum amount of HK\$200.0 million per incident.

In addition, we also take out contractor’s all risks insurance for the entire project when acting as the main contractor which covers work performed by us and our sub-contractors. Our contractor’s all risks insurance generally covers the following:

- (i) loss of or damage to the permanent and temporary works constructed and erected or in the course of construction or erection in performance of the construction contract and all other property for which our Group and/or our sub-contractors is responsible under the relevant construction contract whilst on the site. The amount of coverage equals to the contract sum under the relevant construction contract;
- (ii) costs and expenses necessarily incurred by our Group and/or our sub-contractors with the consent of the insurance company in dismantling and removing debris of the portion or portions of the destroyed or damaged property as insured under item (i) above; and
- (iii) loss of or damage to physical property of third parties, or accidental death, bodily injury, illness or disease suffered by any third parties arising out from the performance of works by us and/or our sub-contractors.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group has taken out and maintained employees’ compensation insurance and contractor’s all risks insurance for all construction projects undertaken by our Group.

During the Track Record Period, our Group has also maintained office protection insurance which covered, among other matters, (i) loss of and damage to office contents in our office; (ii) the increased cost of work resulting such loss of and damage to office contents; (iii) loss of money; (iv) compensation for employees who are injured as a result of malicious attack by any person stealing or attempting to steal in our office; (v) liabilities in respect of compensation for third party bodily injury and/or property damage arising in connection with our business; and (vi) liabilities under employee compensation and personal injury claims for our own employees.

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Certain types of risks, such as the risk in relation to the collectability of our trade and retention receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks.

For the years ended 31 March 2014 and 2015, the total insurance expenses paid by us amounted to approximately HK\$1.9 million and HK\$2.6 million respectively. Our Directors consider that we have obtained adequate insurance coverage for the operation of our business and are consistent with industry norm having regard to our current operations and the prevailing industry practice in Hong Kong. Save as disclosed in the paragraph headed “Litigation and Potential Claims” in this section, our Directors confirm that no material claims have been made in respect of any of our insurance policies during the Track Record Period and up to the Latest Practicable Date.

## **ENVIRONMENTAL MATTERS**

Our Group’s operations at construction sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily these relating to air pollution control, noise control and waste disposal. For details of the regulatory requirements, please refer to the section headed “Regulatory Overview — Laws and Regulations in relation to Environmental Protection in Hong Kong” in this document.

Our Group is committed to minimise any negative impact on the environment which may be resulted from our business activities. Our Group has established an environmental management system and was certified by SGS to be in compliance with the requirements of ISO 14001:2004 since 2009.

Our Group adopts the following environmental protection measures in order to ensure proper management of environmental protection and compliance with statutory requirements (details of which are set out in the section headed “Regulatory Overview — Laws and Regulations in relation to Environmental Protection in Hong Kong” in this document) in our daily operation:

- setting environmental goals and objectives and periodically reviewing such goals and objectives;
- giving priority to minimising environmental impacts and setting environmental friendly construction processes when devising the construction plans;
- the project manager shall monitor all site operations which have significant environmental impact and ensure compliance with environmental legislations, regulations and requirements to which our Group subscribes;
- encouraging the reduction in disposal and emission of construction wastes, dusts, noise and water pollution at sites;



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- taking into account previous environmental performance of our sub-contractors and suppliers when selecting the appropriate sub-contractors and suppliers to be engaged;
- providing education and training to our workers, sub-contractors and suppliers to ensure that they conduct their operations in an environmentally friendly and responsible manner; and
- encouraging feedbacks and suggestions from our customer, workers, sub-contractors, suppliers and public for improvements in our environmental management system.

During the Track Record Period and up to the Latest Practicable Date, our Group had no material non-compliance or violations on any laws and regulations in relation to environmental protection.

## **OCCUPATIONAL HEALTH AND SAFETY**

Our Group is committed to provide our employees and the employees of our sub-contractors a safe and healthy working environment. Under our IMS, we have adopted an occupational health and safety system as required by the relevant occupational health and safety laws, rules and regulations (details of which are set out in the section headed “Regulatory Overview — Laws and Regulations in relation to Labour, Health and Safety in Hong Kong” to this document) and managed by our safety and environmental department for the benefit of our employees and that of our sub-contractors. Our occupational health and safety system has been certified by SGS to be in compliance with the requirements of OHSAS18001:2007 standards since 2009.

Our Group has implemented the following measures to ensure workplace safety:

- a safety management committee comprising our top management is formed, where bi-monthly meetings are held to plan, monitor, improve and review our occupational health and safety performance of our Group and annual meetings are held to review our safety management system and policies;
- our general manager is allocated with the responsibility for setting and reviewing our safety objectives and policies and ensuring that our safety management system is properly implemented in all locations and spheres of our operation;
- safety policies, objectives and safety records are documented, maintained and displayed in each site, workshop and office. Our sub-contractors are contractually required to observe and obey all of our safety policies and measures, breach of which will result in fines at a prescribed rate;
- all employees are required and are provided with the necessary authority to carry out their safety and health responsibilities in accordance with our safety and health objectives, project plans and requirements set out in our IMS manual;

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- an adequate budget that commensurate with our size of operations is set aside for establishing, implementing and maintaining our safety management system;
- arrangements and promotions are made to dismantle occupational health and safety information and both regular and ad hoc safety meetings are held with workers and sub-contractors to raise their awareness as to work safety;
- all personnel, including our-sub-contractors, are required to participate in toolbox talks, safety activities and to attend regular safety trainings organised by our Group; and
- annual safety audit is performed to ensure that our occupational health and safety management system complies with OHSAS18001:2007 requirements.

Our administrative department is responsible for recording details of and handling claims for accidents and injuries in relation to our projects. In addition, it is responsible for liaising with the claimant and insurance company and obtaining external legal advises where our management considers necessary and appropriate. To ensure proper recording and handling of personal injuries claims, our safety officers are required to notify the project manager and general manager any incident of injuries suffered at the construction site immediately. Our safety officers are also responsible for carrying out necessary investigations and follow-up measures in accordance with our internal safety guidelines and applicable procedures required by the relevant laws and regulations. Our Group will also report to our insurance company pursuant to the terms of the relevant insurance policies.

For further details of the material personal injuries sustained by the employees of our Group and our sub-contractors, please refer to the paragraph headed “Litigation and Potential Claim” in this section. Our Directors confirmed that during the years ended 31 March 2014 and 2015, and from the period from 1 April 2015 up to the Latest Practicable Date, our Group has recorded one, one and nil “reportable accidents” (see Notes below) respectively, all involving injuries to workers who were either employed by our Group or by our sub-contractors. Having considered that our accident rate per 1,000 workers over the Track Record Period ranged from 0.0 to approximately 21.3 accident, which are lower than the industry average of 38.7 accident in the calendar year 2014 according to the Ipsos Report and none of the accidents has resulted in fatal injury, our Directors are of the view that our occupational health and safety management system is effective.

*Notes:*

1. “Reportable accidents” means workplace accidents that are required to be reported to an occupational safety officer of the Labour Department. For any accident that results in an employee being incapacitated from working for at least three days, the accident should be reported in writing within seven days after the date of accident. For more serious accidents that involve death or serious bodily injury to an employee, the employer has to notify the Labour Department within 24 hours after the accident.

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### MARKET AND COMPETITION

#### Building Construction Works Contracting Industry

According to the Ipsos Report, from 2010 to 2014, due to the public construction projects initiated by the Government, the building construction works contracting industry in Hong Kong experienced a significant growth. The gross output value of overall construction works performed by main contractors at construction sites for both the private and public sector in Hong Kong grew from approximately HK\$61.5 billion in 2010 to approximately HK\$122.8 billion in 2014, at a CAGR of approximately 18.9%. In addition, with announced plans to continue increasing supply of affordable public housing, it is expected that a strong growth in construction works for the public sector will sustain.

The revenue of the building construction work contracting industry in Hong Kong increased from approximately HK\$46.8 billion in 2010 to approximately HK\$86.2 billion in 2014, at a CAGR of approximately 16.5%. Such an increase was primarily attributable to the robust demand from the large scale and complex multi-disciplinary building construction work projects in Hong Kong in the past five years. Supported by the Government’s housing policy, it is expected that the revenue of the building construction work contracting industry will have a substantial growth from approximately HK\$99.8 billion by the end of 2015 to approximately HK\$188.1 billion in 2019, at a CAGR of about 17.2%.

#### RMAA Contracting Services Industry

According to the Ipsos Report, the RMAA contracting service industry in Hong Kong under the “building services installation and maintenance” category is one of the five major contracting services in Hong Kong amongst the construction of buildings, civil engineering, demolition and site preparation and building finishing and other specialised construction activities.

As stated in the Ipsos Report, due to the fact that ageing residential buildings has been a growing concern in Hong Kong, the Government has implemented policies to stimulate urban renewal plans with an aim to support building owners in improving building safety by providing subsidies to property owners to habitually carry out building repair and maintenance works, which in turn leads to an increase in the number of RMAA work. According to the Ipsos report, the revenue of RMAA services experienced a positive growth from around HK\$31.0 billion in 2010 to around HK\$51.4 billion in 2014 at a CAGR of around 13.5%, and is expected to increase moderately from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019, at a CAGR of approximately 1.7%, mainly due to rising construction costs which will lead to an increase in the project value.

#### Competitive Analysis

The building construction market in Hong Kong is consolidated while the RMAA market in Hong Kong is fragmented. According to the Ipsos Report, there were around 922 approved main contractors in the building construction works contracting industry in Hong Kong and around 340

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main contractors in the RMAA service industry in Hong Kong in 2014. The respective top five players of the building construction services contracting industry and the RMAA services contracting industry in Hong Kong in 2014, the details of which are set out in the section headed “Industry Overview — Top 5 main contractors engaged in the building construction services contracting industry in Hong Kong in 2014” and “Industry Overview — Top 5 main contractors engaged in the RMAA services contracting industry in Hong Kong in 2014” in this document respectively, only contributed approximately 23.0% and 8.9% of the total revenue of the respective markets in Hong Kong.

According to the Ipsos Report, expertise and knowledge, operational experience and capital required for providing construction contracting services represent the key entry barriers for new construction contracting service providers. Please refer to the section headed “Industry Overview — Competitive landscape — Entry Barriers” in this document for further details.

### **INTELLECTUAL PROPERTY**

As at the Latest Practicable Date, our Group has applied for registration of two trademarks in Hong Kong. We have also registered two domain names. Further details of our intellectual property portfolio, including our trademark and domain names, are provided in the paragraph headed “B. Further information about our business — 2. Intellectual property” in Appendix IV to this document.

As at the Latest Practicable Date, we were not involved in any proceedings with regard to, and we have not received notice of any claims of, infringement of any intellectual property rights that may be threatened or pending in which we may be involved either as a claimant or respondent.

### **PROPERTY**

As at the Latest Practicable Date, we had leased one property with gross floor area of approximately 453.18 sq.m. at Unit A to F, 2/F, Centre 600, No. 82 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong for office use and three car park lots in Lai Chi Kok (the “**Properties**”) from Popstate.

The Properties are leased for a term of 2 years commencing on 13 March 2015 and ending on 12 March 2017 (both days inclusive) at a monthly rental of HK\$108,500 (exclusive of utility charges, building management fee and tax). As Mr. Lam is a connected person of our Group, the transaction contemplated under the relevant lease agreement therefore constitutes continuing connected transaction (within the meaning of Chapter 20 of the GEM Listing Rules) for our Group. No registration of the tenancy agreement is required under the laws of Hong Kong. Our Directors confirmed that the rent paid by us to Mr. Lam in relation to the above-mentioned property was determined on an arm’s length basis and reflected the prevailing market rent at the time, and further details of which are set out in the section headed “Connected Transactions — Exempt Continuing Connected Transactions” to this document.

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As at the Latest Practicable Date, no single property interest forming part of our Group’s non property activities had a carrying amount of 15% or more of our total assets. Thus, according to Section 6(2) of the Companies (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance with respect to the requirement of the inclusion of a property valuation report in this document. Our Directors confirm that none of our property interests is individually material to our Group in terms of rental expenses.

Please refer to the paragraph headed “Legal Compliance — Non-compliance of our Group” in this section for non-compliance issues in relation to our leased properties.

### **RESEARCH AND DEVELOPMENT**

During the Track Record Period and up to the Latest Practicable Date, our Group did not engage in any research and development activity.

### **LEGAL COMPLIANCE**

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary approvals, permits, licenses and certificates that are material to our business operations from the relevant Government authorities and such approvals, permits, licenses and certificates remain valid as at the Latest Practicable Date. For details of the requisite approvals, permits, licenses and certificates required for our business operation, please refer to the section headed “Regulatory Overview — Laws and Regulations in relation to Contractor Licensing Regime in Hong Kong” in this document. Save as disclosed in the paragraph below and as confirmed by our Directors, our Group has been in compliance in all material respects with the applicable laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

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### Non-compliance of our Group

The following table sets forth our non-compliance incidents during the Track Record Period and measures we have adopted to prevent recurrence of non-compliance incidents in the future:

#### *Non-compliance with Government leases and occupation permit*

<u>Particulars of the non-compliance</u>	<u>Reason for the non-compliance</u>	<u>Legal consequences and potential maximum penalties</u>	<u>Remedial action</u>
<p>Breach of the land use restrictions set out in the relevant Government lease of premises located at Unit A to F, 2/F, Centre 600, No. 82 King Lam Street, Lai Chi Kok, Kowloon (the “Premises”), the land use conditions set out in the relevant occupation permit and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for failure to notify the Buildings Authority regarding the change of land use. Techoy Construction, as a tenant, rented the Premises as its office during the period from 13 March 2015 to 12 March 2017 where land use of the Premises is restricted to industrial purpose under the Government lease and for workshops and ancillary accommodation for non-domestic use under the relevant occupation permit.</p> <p>The Premises is also subject to a deed of mutual covenant which sets out that the building at where the Premises is located is restricted to industrial and/or godown purposes</p>	<p>The breach was not willful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material times.</p>	<p>Under section 40(2) and section 40(6) of the Buildings Ordinance, our Group is liable to a maximum fine of HK\$100,000 and our Directors are liable to a maximum fine of HK\$100,000 and imprisonment of two years maximum.</p> <p>According to the relevant Government lease, the Government is entitled to re-enter the Premises and claim damages against the respective owners. If the occupier does not quit the Premises upon receiving notice of re-entry from the Government, he may also be liable to civil claim by the Government.</p> <p>As at the Latest Practicable Date, Techoy Construction had not received any notice of re-entry from the Government in relation to the Premises.</p> <p>For the breach of the relevant deed of mutual covenant, the incorporated owners of the building could claim against Techoy Construction for an injunction restraining the use of Premises as an office by Techoy Construction.</p> <p>As at the Latest Practicable Date, the incorporated owners of the building has not raised any complaint as to such breach against Techoy Construction, and there were no subsisting disputes between the incorporated owners and Techoy Construction which demands the rectification of the breach nor termination of the said tenancy agreement no re-entrance of the Premises.</p> <p>As advised by the Legal Counsels, although the use of the Premises as an office appears to be a breach of the restrictions against any use of the Premises for non-industrial purposes, there is a low likelihood that this should present any immediate risk of enforcement against Techoy Construction. In so far as criminal liability is concerned, the Legal Counsels are of the view that the likelihood of prosecution under section 40(2) to be reasonably remote.</p>	<p>Techoy Construction will sign a new tenancy agreement before [REDACTED] to secure the legitimate and lawful rights to use a new office of reasonable size (the “New Premises”) by the Company and/or Techoy Construction and the Controlling Shareholders have agreed to indemnify our Group for all relocation costs incurred.</p>

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### **Views of our Directors and the Sole Sponsor**

For the non-compliance incident in respect of the Premises, as at the Latest Practicable Date, there had not been any prosecution initiated against our Group or our then or current Directors, nor had any of them been subject to any re-entry notice or fine relating to the above non-compliances. Having considered that the estimated fines and penalty, if applicable, are immaterial, and that, based on the opinions of the Legal Counsels, prosecution and/or claim under such circumstances is reasonably remote, no provision for the fines has been made by our Directors in our Group’s financial statements. In addition, our Group does not rely on the Premises to generate profits and any commercial premises with reasonable size can be used as an office of our Group, there will not be any difficulties for our Group to relocate to a new premises within a reasonable period of time should the circumstances require.

In light of the above, such non-compliance matter shall not have any material impact on the operations or financial position of our Group.

Our Directors are also of the view that the abovementioned non-compliance matters would not affect the suitability of our executive Directors under Rule 5.01, 5.02 and 11.07 of the GEM Listing Rules or the suitability of [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by us are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules having taken into account the fact that (i) we had taken the abovementioned internal control measures to avoid recurrence of the non-compliance incidents; (ii) no additional material non-compliance incident has taken place since the measures are taken; and (iii) the above non-compliance incident were unintentional, did not involve any fraudulent act on the part of our executive Directors and did not raise any question as to the integrity of our executive Directors.

The Sole Sponsor, after considering the above and having reviewed the internal control measures, concurs with the view of our Directors that (i) the various internal control measures adopted by us are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules; (ii) our executive Directors have the standard of integrity and competence commensurate with positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules; and (iii) the abovementioned non-compliance matters would not affect the suitability of our Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability of [REDACTED] of our Company under Rule 11.06 of the GEM Listing Rules.

### **LITIGATION AND POTENTIAL CLAIMS**

During the Track Record Period and as at the Latest Practicable Date, our Group had been or is involved in a number of claims, litigations and potential claims against our Group. Set out below are the details of (i) the ongoing litigations against our Group as at the Latest Practicable Date; and (ii) the litigation against our Group settled (either by way of court judgment or settlement between parties) during the Track Record Period and up to the Latest Practicable Date.

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Save as disclosed in the paragraph below, to the best knowledge of our Directors, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and our Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against our Group that would have a material or adverse effect on our results of operations or financial condition.

**Ongoing litigations against our Group as at the Latest Practicable Date**

The table below sets forth details of the ongoing litigations against our Group as at the Latest Practicable Date:

<u>Date of the accident</u>	<u>Project site</u>	<u>Nature of the accident/claim</u>	<u>Identity of the injured worker/ capacity of the plaintiff(s)/ applicant(s)</u>	<u>Compensation claimed/amount settled</u>	<u>Insurance coverage</u>	<u>Status as at the Latest Practicable Date</u>
6 July 2012	Former Police Married Quarters on Hollywood Road, Central, Hong Kong	A worker alleged that her right elbow was injured by a wooden plank falling down.	Group’s employee	An employees’ compensation of HK\$275,700.00 was made.  Personal injuries claim is in progress and the amount of claim is HK\$490,341.99 (excluding interest).	100%	Outstanding  The employees’ compensation claim was settled.  The insurer has taken over the case and the case is still ongoing.



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**Litigations against our Group settled (either by way of court judgment or settlement during the Track Record Period and up to the Latest Practicable Date)**

The table below sets forth details of the litigations against our Group settled (either by way of court judgment or settlement between parties) during the Track Record Period and up to the Latest Practicable Date:

<u>Name of our Group company(ies)</u>	<u>Particulars of the claim</u>	<u>Total amount settled</u> (HK\$)	<u>Judgment/ settlement date</u>	<u>Insurance coverage/ indemnity</u>
<i>Employees' compensation claims</i>				
Techoy Construction	On or about 31 May 2014, it was purported that the applicant, being an employee of our Group, sustained left eye injury while concreting in the course of work.	314,450.37	19 May 2015	100%
Techoy Construction	On or about 1 November 2012, it was purported that the applicant, being an employee of our Group, sustained back injury whilst lifting up concrete in the course of work.	227,894.95	12 May 2015	100%
Techoy Construction	On or about 6 July 2012, it was purported that the applicant, being an employee of our Group, sustained right elbow injury by a wooden plank falling down.	275,700.00	9 April 2015	100%
Techoy Construction	On or about 19 June 2013, it was purported that the applicant, being an employee of our Group, injured her back while cleaning crushed stone in the course of work.	14,732.69	17 January 2014	100%

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**BUSINESS**

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<u>Name of our Group company(ies)</u>	<u>Particulars of the claim</u>	<u>Total amount settled</u> (HK\$)	<u>Judgment/ settlement date</u>	<u>Insurance coverage/ indemnity</u>
Techoy Construction	On or about 11 March 2013, it was purported that the applicant, being an employee of our Group, lost his balance and fell on the ground while inspecting the construction site in the course of work.	68,529.00	22 November 2013	100%
Techoy Construction	On or about 25 July 2012, it was purported that the applicant, being an employee of our sub-contractor, sustained his left middle finger while transporting an i-steel in the course of work.	101,358.00	25 June 2013	100%
<i>Miscellaneous claims</i> Techoy Construction	The plaintiff, being a sub-contractor of our Group in a RMAA project in Ho Man Tin Hill Road, Hong Kong, claimed against Techoy Construction for purportedly outstanding sum in respect of work done under the relevant construction contract and damages purportedly caused to the plaintiff as a result of breach of contract by Techoy Construction.	366,770.89	10 June 2013	N/A

**INTERNAL CONTROL**

It is the responsibility of our Board to ensure that we maintain sound and effective internal controls to safeguard our Shareholders’ investment and our assets at all times. In preparation of the [REDACTED], we have engaged the Internal Control Adviser in May 2015 as our independent external adviser to undertake an assessment of internal controls over certain business processes of the Company. The Internal Control Adviser has performed internal control review in May 2015 and follow-up review in June 2015. The Internal Control Adviser has provided some recommendations for our management’s consideration to enhance our internal control system. As confirmed by our Directors, all the remedial measures will be fully implemented by us upon the [REDACTED].

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## BUSINESS

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We have adopted a series of internal control policies and procedures designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- ***Code of Conduct*** — Code of Conduct has been established by our management to govern the conduct of employees and management. The requirements have been acknowledged by each of our staff;
- ***Project Tendering and Management Policies and Procedures*** — Project Tendering and Management Policies and Procedures has been established by our management to governing project tendering, preparation, budgeting, completion, delivery, and reporting. The policies and procedures have been communicated to all relevant staff; and
- ***Suppliers and subcontractors appraisal*** — Suppliers and subcontractors appraisal policies have been established in our internal control policies. Performance appraisal of the suppliers and subcontractors will be conducted annually on a set of pre-determined evaluation criteria. Our general manager is responsible for supervising the suppliers and subcontractors appraisal.

### **Non-compliance with Government leases and occupation permit**

For our non-compliance with Government leases and occupation permit, the Internal Control Adviser has reviewed our rectification measures and put forward recommendations to our Company. We have implemented the following rectification measures in order to prevent the above non-compliance in the future:

- (i) before rental or procurement of any premise, a detailed land search would be conducted to ensure that the exact purpose of the premise fits for our intended use; and
- (ii) in case of doubt as to the compliance with the relevant use of the premise, external advise from building surveyors and legal advisers would be seek.

Such non-compliance was not willful and was due to the inadvertent oversight of the responsible staff and the absence of timely professional advice at the material times. The inadvertent oversight did not involve any issue in the integrity, character or competence of our Directors.

Please refer to the paragraph headed “Legal Compliance — Non-compliance of our Group — Views of our Directors and the Sole Sponsor” in this section for the views of our Directors and the Sole Sponsor.