

BUSINESS

BUSINESS OVERVIEW

We are a main contractor in Hong Kong principally engaged in providing (i) substructure building works services; (ii) superstructure building works services; and (iii) RMAA works services.

In general, substructure and superstructure building works refer to building works in relation to the parts of the structure below or above the ground level respectively, while RMAA works are for existing structures. During the Track Record Period, the scope of our substructure building works projects consisted of demolition and hoarding, site formation and foundation works, the scope of our superstructure building works projects consisted of development and redevelopment of church, educational, residential, and commercial buildings, while the scope of our RMAA works consisted of improvement, fitting-out works, renovation works, restoration works and external works.

The following table sets forth the breakdown of our revenue by segment during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September	
	<i>Revenue</i>	<i>% of total</i>	<i>Revenue</i>	<i>% of total</i>	<i>Revenue</i>	<i>% of total</i>
	<i>(HK\$'000)</i>	<i>revenue</i>	<i>(HK\$'000)</i>	<i>revenue</i>	<i>(HK\$'000)</i>	<i>revenue</i>
Substructure building works services	75,280	37.6	131,520	34.9	36,913	23.8
Superstructure building works services	31,597	15.8	221,009	58.6	115,687	74.7
RMAA works services	<u>93,306</u>	<u>46.6</u>	<u>24,827</u>	<u>6.5</u>	<u>2,309</u>	<u>1.5</u>
Total:	<u><u>200,183</u></u>	<u><u>100.0</u></u>	<u><u>377,356</u></u>	<u><u>100.0</u></u>	<u><u>154,909</u></u>	<u><u>100.0</u></u>

All our projects during the Track Record Period and up to the Latest Practicable Date were located in Hong Kong.

BUSINESS

During the Track Record Period, we undertook projects in both public and private sectors. According to the Ipsos Report, public sector projects refer to projects commissioned by the Government (including the Development Bureau, Civil Engineering and Development Department, Drainage Services Department, Environmental Protection Department, Highways Department, Architectural Services Department, Water Services Department and Housing Authority), the MTR Corporation Limited and the Airport Authority, while private sector projects refer to projects commissioned by individuals, privately owned property development companies and commercial enterprises. During the Track Record Period, our customers included LAML, church, property developers, educational institution and statutory body. The following table sets forth the breakdown of our revenue by public and private sectors during the Track Record Period:

	Year ended 31 March				Six months ended	
	2014		2015		30 September	
	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>	<i>Revenue (HK\$'000)</i>	<i>% of total revenue</i>
Private sector	190,079	95.0	376,401	99.7	154,909	100.0
Public sector	<u>10,104</u>	<u>5.0</u>	<u>955</u>	<u>0.3</u>	<u>—</u>	<u>—</u>
Total:	<u><u>200,183</u></u>	<u><u>100.0</u></u>	<u><u>377,356</u></u>	<u><u>100.0</u></u>	<u><u>154,909</u></u>	<u><u>100.0</u></u>

We acted as the main contractor in all our projects during the Track Record Period and up to the Latest Practicable Date and delegated works to our subcontractors under supervision and management by our project team. Our role as a main contractor generally includes overall project management and supervision of works conducted by our subcontractors to ensure their conformity to contractual specification and that projects are completed on time and within budget. During the Track Record Period, besides our subcontractors, our top five suppliers also include construction materials suppliers.

As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$398.4 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows:

We are an established main contractor in Hong Kong

We were founded in 1998 and have been operating for over 17 years. During the Track Record Period and up to the Latest Practicable Date, we completed 14 projects. As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$398.4 million. These on-going projects are expected to be completed by the year ending 31 March 2017. For details of our projects, please refer to the paragraph headed “Business — Our projects” in this document.

We are the registered general building contractor under the Buildings Department. We are also registered as specialist contractors under both foundation works category and site formation category. We are also included in the list of approved suppliers of materials and specialist contractors for public works under the category of repair and restoration of historic buildings maintained by the Works Branch of the Development Bureau. With these licenses and qualifications, we are able to tender different kinds of projects in the construction main contracting industry in Hong Kong. For details of our qualifications and licenses, please refer to “Business — Major qualifications and licenses” in this document.

BUSINESS

In addition, our quality management system and environmental management system for our construction, maintenance, renovation, addition and alteration of building works and services have been certified to comply with the requirements of ISO 9001: 2008 and ISO 14001:2004, respectively. For details, please refer to the paragraph headed “Business — Awards, certifications and corporate social responsibilities” in this document.

Based on our internal records, for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, we submitted 51, 41 and 27 tenders or quotations to our customers (excluding quotations in relation to variation orders and supplemental orders), respectively and had been awarded 9, 4 and 6 projects. For details of our success rates, please refer to the paragraph headed “Business — Business model and our operation — Tender selection” in this document.

In view of our long operating history, reputation and proven track record, our Directors consider that we are an established main contractor in Hong Kong.

We provide extensive services

Our services range from substructure building works, superstructure building works to RMAA works. During the Track Record Period, the scope of our substructure building works projects consisted of demolition and hoarding, site formation and foundation works, the scope of our superstructure building works projects consisted of development and redevelopment of church, educational, residential, and commercial buildings, while the scope of our RMAA works consisted of improvement, fitting-out works, renovation works, restoration works and external works.

Comparing with main contractors focusing on providing particular scope of services, our Directors consider that our capability and proven track record of providing extensive services allow us to cater different needs of our customers in different stages of building development, and increase our opportunity being invited to submit tenders or quotations, thereby increasing our chance to be awarded with new projects.

We have established relationships with our top five customers

As at the Latest Practicable Date, we have established business relationships with our top five customers for a period ranging from around one to five years.

One of our top five customers, Customer I, had been working with us for more than two years as at the Latest Practicable Date, who awarded us a contract to provide substructure building works services for a building development located at Portland Street, Mongkok, Hong Kong in 2013, also awarded us a contract to provide superstructure building works services with contract sum amounted to approximately HK\$99.8 million for the same building development in 2015 after the previous contract was practically completed in 2014.

Further, one of our top five customers, LAML, had been working with us for around five years as at the Latest Practicable Date, who awarded us two contracts to provide RMAA works services for a shopping centre located at Tai Wai, Shatin, Hong Kong in 2011, and a market block and commercial complex located at Tuen Mun, Hong Kong in 2013, all of which had been practically completed by 2012 and 2014 respectively. In 2015, such customer awarded us a contract to provide RMAA works services for a commercial centre located at Tuen Mun, Hong Kong with contract sum amounted to approximately HK\$53.6 million.

In addition, one of our top five customers, Customer E, had been working with us for more than three years as at the Latest Practicable Date, who awarded us a contract to provide substructure building works services for a residential development located at Stanley, Hong Kong

BUSINESS

in 2012, also awarded us a contract to provide superstructure building works services with contract sum amounted to approximately HK\$71.3 million for the same residential development in 2014 after the previous contract was practically completed in 2014.

Besides our top five customers, a school, who had been working with us for more than five years as at the Latest Practicable Date, awarded us three contracts to provide superstructure building works services and RMAA works services from 2010 to 2012, all of which had been practically completed by 2012. In 2015, such school awarded us a contract to provide superstructure building works services for the redevelopment of its new teaching block located at Wong Ma Kok Road, Stanley, Hong Kong with contract sum amounted to approximately HK\$98.8 million.

According to the Ipsos Report, there is a high tendency for the Government and private developers to cooperate with contractors which are capable of providing high quality works and with a solid track record. Further, main contractors with established relationships with major private developers will definitely have a better chance of winning private contracts. In addition, private developers generally have their own preference list of contractors for tender invitation. As a result, maintaining good and sustainable relationships with major private developers is an advantage to main contractors in being included in the preference list and winning private tenders.

In view of the aforesaid, our Directors consider that our long term relationships with our top five customers also demonstrate our capability in providing high quality works and completing projects on time and within budget, which enable us to maintain our clientele base and attract new customers, and cannot be easily replicated by our competitors.

We have established relationships with our top five suppliers

During the Track Record Period, our top five suppliers consisted of subcontractors and construction materials suppliers. As at the Last Practicable Date, our top five suppliers had been working with us for a period ranging from approximately one to six years. Our Directors believe that our established relationships with our top five suppliers have been and will continue to be our valuable assets enabling us to take up projects of various scales and service scopes and fulfil our customers' requirements.

We have an experienced and dedicated management team

We have an experienced and dedicated management team with extensive knowledge of the construction industry and project management experience in the services that we provide. Our executive Directors and members of our senior management have an average industry experience of greater than approximately 15 years. Most integral to the success of our Group is Mr. Ng, our founder, Chairman, chief executive officer and executive Director, who has over 27 years of experience in the construction main contracting industry and has facilitated our Group to establish long term relationships with our customers and suppliers. Mr. Lui and Mr. Lam, our executive Directors, have over 15 years of experience in the construction main contracting industry in Hong Kong. For details of the profile of our management team, please refer to the section headed "Directors, Senior Management and Staff" in this document.

Under the leadership of our management team, we have built up our capacity, expanded our scope of services and enhanced our market presence. The broad know-how and industry knowledge acquired and accumulated over the years by our management team have and will continue to be beneficial to our business and prospects.

BUSINESS

BUSINESS STRATEGIES

Our business objective is to achieve sustainable growth in our business in Hong Kong by implementing the following business strategies:

To consolidate and expand our works capacity in Hong Kong

According to the Ipsos Report, it is expected that the gross output value of the substructure building works industry in Hong Kong will have a growth from around HK\$24.5 billion by the end of 2015 to around HK\$51.8 billion in 2019, at a CAGR of about 20.6% due to the expected increase in the demand for residential and commercial buildings. Further, as the Government has taken initiatives to increase the housing supply in Hong Kong, it is expected that the gross output value of the superstructure building works industry in Hong Kong will have a growth from around HK\$99.8 billion by the end of 2015 to around HK\$188.2 billion in 2019, at a CAGR of about 17.2%.

In addition, according to the Ipsos Report, urban renewal projects on ageing buildings due to limited supply of new land to meet the growing demand for residential and non-residential buildings in Hong Kong, trend of restoration of high-end residential buildings due to increase of value and rental of residential flats in recent years, and revitalisation of industrial buildings as encouraged by the Government to accommodate the growing demand, will facilitate the growth of RMAA works in Hong Kong. It is expected that the gross output value of the RMAA works industry in Hong Kong will increase from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019, at a CAGR of around 1.7% according to the Ipsos Report.

With our proven track record in the construction main contracting industry in Hong Kong, we believe that we are well positioned to expand our market share and maintain our active status in the construction main contracting industry in Hong Kong. In view of our potential undertaking of more projects in the future, we need to reserve more capital to satisfy our potential customers' requirement for surety bond. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

In order to increase our capacity to cater with more projects, we also plan to expand our scale by continuing to maintain and enhance our workforce and machinery.

Our Directors consider that a team of diligent workforce with appropriate knowledge and experience in undertaking various types of works are critical to our continuing success. In this regard, we plan to recruit additional staff, including one project manager, one electrical and mechanical professional, one foreman, one assistant foreman, one leveller, one assistant leveller and one quantity surveyor, in the next two years. With the expansion of our workforce, we also plan to recruit one registered safety officer, one assistant compliance officer and one account manager, to maintain and strengthen our internal control and occupational health and safety measures. The recruitment is planned to be completed by 30 September 2016. We also plan to arrange and sponsor our engineering staff to attend external technical seminars and occupational health and safety courses from time to time in the next two years to strength their technical knowledge and safety awareness. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

We also plan to acquire additional machinery so as to enhance our Group's working capacity. We plan to acquire one set of crawler drills in the next two years. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED] within two years after the [REDACTED].

Our Directors believe that by expanding our scale of operation, we will be able to (i) undertake projects of a larger scale; (ii) achieve better coordination in the deployment of machinery and labour forces in order to optimise our operational efficiency; and (iii) have

BUSINESS

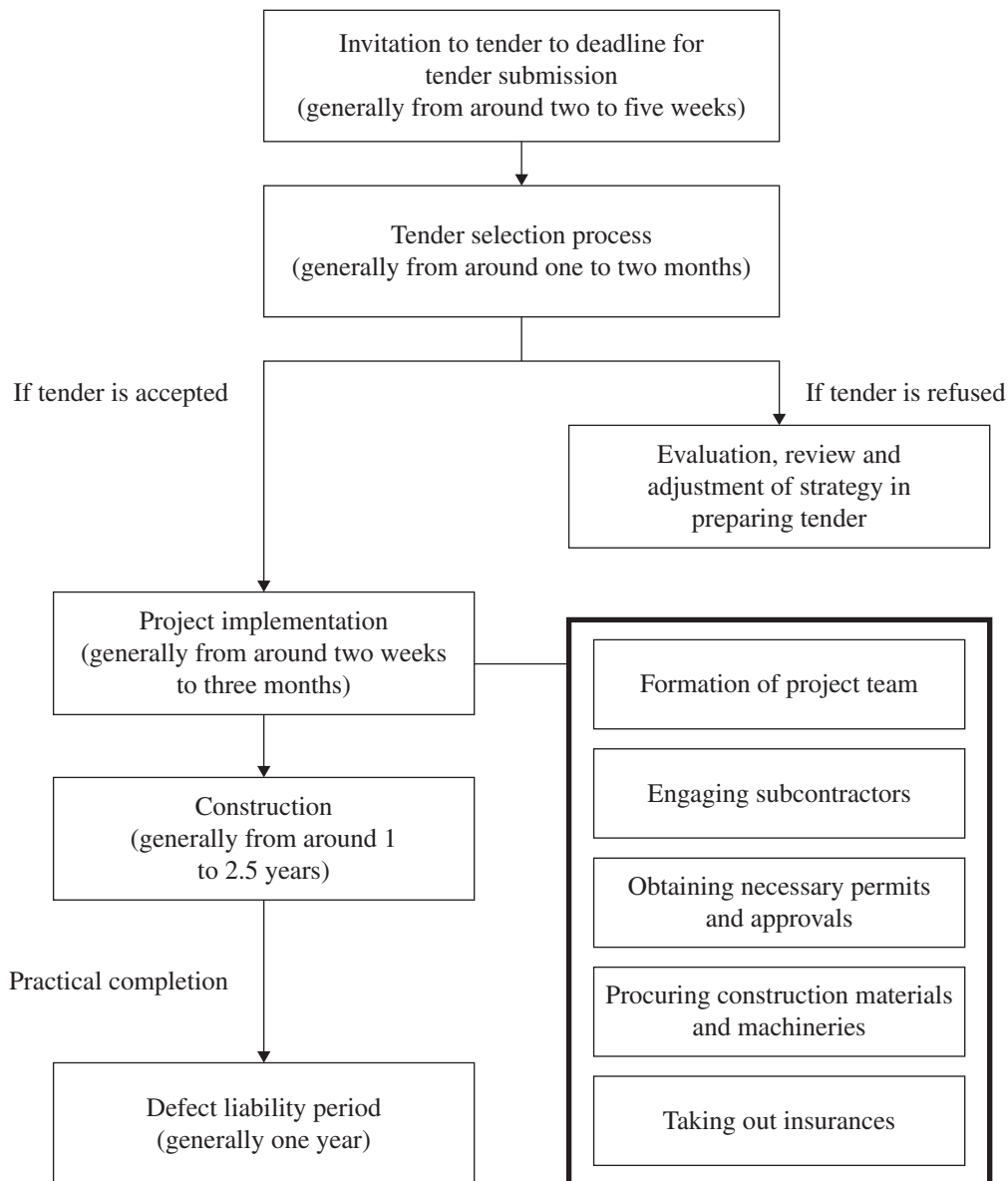
additional manpower to further strengthen our quality and work safety assurance which is of utmost importance to our Group’s competitiveness in the construction main contracting industry in Hong Kong.

Further, we plan to reduce our gearing ratio by repaying part of an outstanding bank borrowing after the [REDACTED]. In this regard, we plan to spend a total of approximately HK\$[REDACTED] of our proceeds from the [REDACTED].

For further details in relation to our use of proceeds to implement the plans set out above, please refer to the section headed “Future plans and use of proceeds” in this document. As at the Latest Practicable Date, we have not identified any acquisition targets.

BUSINESS MODEL AND OUR OPERATION

The following pattern illustrates the work flow of our typical project:



BUSINESS

Invitation to tender and preparation of tender

According to the Ipsos Report, the tender process for construction projects is standardised. When the employers intend to engage a main contractor for a construction project, they would issue invitation to tender to numerous candidate main contractors. Private developers generally have their own preference list of contractors for tender invitation. After receiving the invitation to tender, the candidate main contractors would prepare and submit their tenders by the deadline. All these tender submissions would be evaluated and vetted by the employers and they would conduct interviews and negotiations with candidate main contractors before awarding the tender to the appropriate main contractor. After the main contractor has been awarded with the tender, they would subcontract various parts of the construction works to the subcontractors. Similarly, candidate subcontractors would submit tenders or quotations by the deadline which would be evaluated by the main contractor, before awarding the subcontracts to the appropriate subcontractors.

In general, the invitation to tender is by way of letter. If we accept the invitation, tender package is delivered to us consisting of conditions of tender, specifications, schedule of rates and drawings. The schedule of rates is to itemise the works and quantities. Our tendering department is responsible to prepare the tender submission.

We adopt a cost-plus pricing model for setting our tender price. We estimate the cost by considering direct labour cost, subcontracting cost, construction material cost and insurance cost. During the preparation of tender submission, we may obtain preliminary quotations from our construction materials suppliers, subcontractors and insurers to facilitate our estimation.

We would conduct site visit(s) to understand the site conditions and constraints. Factors which would affect the tender price, including geographical conditions, proximity to concrete plants, proximity to schools and residential properties and proximity to old tenements, would be considered.

A preliminary assessed project cost would be provided to our executive Directors to consider. Our executive Directors would also determine the mark-up margin. In determining the mark-up margin, we target to strike a balance between making a competitive tender price against our competitors and maintaining a reasonable gross profit margin of the project, and would take into account various factors including pricing trends of labour and material cost, relationship with our customers and the professional parties already on board in the project and risk factors. Our tendering department would then fill in and revise the schedule of rates and prepare tender submission documents.

Depending on the tender submission requirements, the tender submission generally consists of tender price, schedule of rates, our previous audited accounts and latest management accounts, details of the proposed subcontractors, job reference of similar project nature with particulars, schedules of equipment materials, organisation chart with resume of proposed project team, preliminary programme and time frame, site safety plan, method statements, logistic planning, and noise and dust abatement measures.

Depending on the complexity and scale of the project, it generally takes around two to five weeks for us to prepare and make a tender submission. Our executive Directors must approve and sign the tender submission before it is made.

Tender selection

After tender submission, we would attend interview with our customer, respond to our customer's queries and/or negotiate with our customer about the price and/or contract terms, which are responsible by our executive Directors. If we are selected by our customer to "win" the contract, a letter of acceptance would be issued to us. The tender selection process generally takes around one to two months.

BUSINESS

We keep soft copy of and assign a reference number for every tender we submit, irrespective of its results. Such arrangement generally facilitates us to carry out evaluation, review and adjustment of strategy in preparing future tender. The following two tables set forth our success rates by segment and by public and private sectors during the Track Record Period based on our internal records:

	Year ended 31 March						Six months ended 30 September 2015		
	2014			2015			Number of tender submissions	Number of successful tenders	Success rate (%)
	Number of tender submissions	Number of successful tenders	Success rate (%)	Number of tender submissions	Number of successful tenders	Success rate (%)			
Substructure building works services	11	3	27.2	9	0	0.0	9	2	22.2
Superstructure building works services	7	4	57.1	7	2	28.6	2	1	50.0
RMAA works services	33	2	6.1	25	2	8.0	16	3	18.8

	Year ended 31 March						Six months ended 30 September 2015		
	2014			2015			Number of tender submissions	Number of successful tenders	Success rate (%)
	Number of tender submissions	Number of successful tenders	Success rate (%)	Number of tender submissions	Number of successful tenders	Success rate (%)			
Public sector	17	1	5.9	1	0	0.0	3	0	0.0
Private sector	34	8	23.5	40	4	10.0	24	6	25.0

During the Track Record Period, we recorded relatively low tender success rates as to RMAA works services for the two years ended 31 March 2015 at approximately 6% and 8% respectively, and no successful tenders as to substructure building works services for the year ended 31 March 2015. [It is because, as considered by our Directors, we adopt a pro-active approach on our projects procurement strategy. Our Directors confirm that we generally prepare and submit tenders in response to all invitations to tender from our new and potential customers, in order to explore and utilise every opportunity to secure new projects for our Group, maintain customers' relationship and increase our opportunity to work with new customers.]

Project implementation

Formation of project team

Once we are awarded with a project, we will form a project team which normally comprise of a project manager, a general foreman, foremen, a quantity surveyor, registered safety officers and safety supervisors. The size of our project team depends on the complexity and scale of the project, and any additional requirements requested by our customer. Our project team is responsible to handle the project assigned to it to ensure the works are in conformity to the contractual specifications and the project is completed on time and within budget. It will also regularly report to our executive Directors the project progress and status.

Engaging subcontractors

We would confirm our engagement with our subcontractors after we are awarded with a project.

We generally subcontract various parts of the project to our subcontractors in Hong Kong. During the Track Record Period, the works we subcontracted to our subcontractors included demolition, hoarding, concreting, painting, redecoration and roofing, which were generally labour intensive or

BUSINESS

required specific skill sets. Further, in some projects, there were certain works, which generally required specific skill sets including lifts and escalators installation and electrical and mechanical works, required by our customers to be carried out by the nominated subcontractors under the contract.

We, as main contractor, will oversee the carrying out of the works by our subcontractors in order to ensure the works completed are in conformity to contractual specification and that projects are completed on time and within budget. With the engagement of subcontractors, we are able to focus on quality control and overall project management and supervision.

For further details on our selections of subcontractors and our subcontracting arrangement, please refer to the paragraph headed “Business — Our suppliers — Subcontractors” in this document.

Obtaining necessary permits and approvals

Our Group, as a main contractor, is required to comply with the applicable environmental laws and regulations in Hong Kong in carrying out the project. Our project team is responsible for perusing the specifications set out in the contract and if necessary, 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 before commencement of the construction works. For further details, please refer to the paragraph headed “Regulatory overview — B. Laws and regulations in relation to Environmental protection” in this document.

Procuring construction materials and machineries

In general, our subcontractors are required to equip themselves with the necessary construction materials and machineries to complete the works that we subcontracted to them, the cost of which is generally included into the subcontract price.

Depending on the scope of service provided by our subcontractors, some of them may not equip with the necessary machineries and/or we need to procure certain construction materials for them.

The construction materials we purchase for our subcontractors include concrete and steel. The construction materials we purchased are generally sent to the site directly by our suppliers. We do not keep any construction materials as inventory because they are procured on a project-by-project basis in accordance with the specifications.

For those subcontractors that we need to provide them machineries, we either provide them our own machineries or machineries leased from our suppliers (as agreed and included in the subcontract price). For details on our own machinery, please refer to the paragraph headed “Business — Our machinery” in this document.

Taking out insurances

In order to comply with the relevant laws and regulations in Hong Kong and the requirements under the contract, we, as the main contractor, are required to take out the employees’ compensation insurance, contractor’s all risks and third party liability insurance, insurance for the construction plant and equipment brought onto the site for the contract. For further details, please refer to the paragraph headed “Business — Insurance” in this document.

BUSINESS

Construction

Progress payment and certification

In general, we do not receive any sums as prepayment and only receive progress payments from our customers. Among 14 projects completed during the Track Record Period and up to the Latest Practicable Date and 12 on-going projects as at the Latest Practicable Date, save and except one project, we did not receive any sums as prepayment from our customers.

We receive progress payment from our customers pursuant to the contract. In general, for every one month, we prepare a statement setting out our estimate of the value of the works completed in the preceding month and submit the statement together with the payment application to our customers. Upon receiving such statement with our payment application, the architect and/or quantity surveyor of our customer shall assess our estimation and issue an interim certificate certifying the works completed in the preceding month. In general, it takes around 14 days from the date of our payment application to issue the interim certificate. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 30 days from the date of the issuance of the interim certificate.

The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount until the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.

Payment is usually made by way of cheque or bank transfer in Hong Kong dollars.

The above mechanism is also similar to our progress payment to our subcontractors. On or before the fifteenth (15th) day of each calendar month, our subcontractors shall submit payment application to us, which shall contain the quantity of completed works certified by our foreman together with receipts and/or records showing due payment of salary to their employees and the employees of their sub-subcontractors (if any).

Upon receiving such payment application, we shall assess and certify the amount to be paid and make payment based on the certified amount less any retention money on the thirtieth (30th) day of the same calendar month.

Re-measurement and variation order

In general, our contract sum is a fixed price lump sum and shall be inclusive of all the costs and expenses and profit that will be or are necessary to be incurred by us to complete our obligations under the contract.

In some projects, the relevant schedule of rates contains provisional items which refer to estimations of the required quantities for the execution of work or the provision of materials or goods and are not conclusive and final and are subject to adjustment, increase, reduction or cancellation. If they are required during the construction, such work or the provision of materials or goods shall be re-measured for the actual quantities and paid for the rate agreed under the relevant schedule of rates. If they are not required during the construction, the relevant prices included in the contract sum shall be deducted accordingly.

Besides, our customer or its architect may issue instructions ordering a variation to the works under the contract, which could include alteration or modification of the design, quality or quantity of the works, addition, omission or substitution of any works, and alteration of the kind or standard of any of the materials or goods to be used for the works.

BUSINESS

If 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 valuation of the same shall be made in accordance with the prices in the schedule of rates under the contract. If there is no equivalent or similar contract unit rate in the schedule of rates for valuation, we are required to submit new unit rates with breakdowns for approval.

Adjustment to contract sum is generally not available for rises or falls in the cost of labour and materials or exchange rates of currencies.

Practical completion, extension of time and duration of our projects

Upon the fulfilment of all requisite acknowledgement(s)/consent(s)/certificate(s) on completion of works for the said premises have been issued by the relevant Government authorities and the works under the contract have been completed to the satisfaction of our customer, our customer will issue a practical completion certificate. On the issue of the practical completion certificate, part of the retention money being retained will be released to us and the surety bond, if any, will also be released.

Actual duration of our projects, which refer to the period from date of commencement as stated in the contract to the date of practical completion certificate, are affected by a wide range of factors, including but not limited to project scale, technical complexity, conditions of the site, input of machineries and labour, expectation of our customers and amount of variation orders.

The project duration and completion time of a project is usually stated in the relevant contract. In general, failure to complete on time will result in liquidated damages against us calculated according to an agreed daily rate under the contract. Nevertheless, if the progress of the works is likely to be delayed due to certain situations as stipulated under the contract such as force majeure, variation orders and discovery of antiquities on the site, our customers shall estimate the length of the delay and make a fair and reasonable extension of time for completion of the works.

During the Track Record Period, the average duration of our substructure building works projects, superstructure building works projects, and RMAA works projects completed was about 18 months, 13 months and 9 months, respectively.

Defect liability period and final payment

We are required to make good any defects at our own cost within the defect liability period, which is generally 12 months, after the practical completion. After we have made good the defect to our customer's satisfaction, the residue of the retention money being retained will be released to us. In general, we impose a back-to-back defect liability period on our subcontractors.

In general, within three months after the expiry of the defect liability period and making good the defects, our customer will issue the final certificate to state the sum of all amounts previously certified and the contract sum as adjusted pursuant to the contract. Such difference shall be settled by our customer or us, as the case may be, within 14 days from the final certificate date.

BUSINESS

OUR PROJECTS

During the Track Record Period and up to the Latest Practicable Date, we have completed 14 projects.

As at the Latest Practicable Date, we had 12 on-going projects (either in progress or yet to commence) and the total outstanding contract sum of the same was approximately HK\$398.4 million. These on-going projects are expected to be completed by the year ending 31 March 2017.

The following three tables summarise our projects with recognised revenue of more than HK\$20 million to us for each of the two years ended 31 March 2015 and the six months ended 30 September 2015 in descending order:

For the year ended 31 March 2014

Rank	Project	Customer	Sector	Type	Status as at the Latest Practicable Date ^(Note 2)	Amount of revenue recognised for the year ended 31 March 2014 <i>HK\$'000</i>	% of our total revenue for the year ended 31 March 2014
1	P1	LAML	Private	RMAA works services for a market block and commercial complex located at Tuen Mun, Hong Kong	Completed	81,614	40.8%
2	P2	Customer B	Private	Substructure building works services and superstructure building works services for a church located at Tsim Sha Tsui, Hong Kong	Completed	48,469 ^(Note 3)	24.2% ^(Note 3)
3	P3	Customer E	Private	Substructure building works services for a residential development located at Stanley, Hong Kong	Completed	20,156	10.1%
Total ^(Note 1) :						150,239	75.1%

Notes:

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as “completed” means that the relevant project has achieved practical completion.
3. Among our revenue recognised in this project for the year ended 31 March 2014, approximately HK\$21.9 million and HK\$26.5 million were attributable to substructure building works services and superstructure building works services respectively.

BUSINESS

For the year ended 31 March 2015

Rank	Project	Customer	Sector	Type	Status as at the Latest Practicable Date ^(Note 2)	Amount of revenue recognised for the year ended 31 March 2015 <i>HK\$'000</i>	% of our total revenue for the year ended 31 March 2015
1	P2	Customer B	Private	Substructure building works services and superstructure building works services for a church located at Tsim Sha Tsui, Hong Kong ^(Note 3)	Completed	66,910 ^(Note 3)	17.7% ^(Note 3)
2	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	On-going	53,413	14.2%
3	P5	Customer A	Private	Superstructure building works services for a residential development located at Castle Peak, New Territories, Hong Kong	Completed	53,187	14.1%
4	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	On-going	48,052	12.7%
5	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	On-going	23,656	6.3%
6	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	On-going	22,500	6.0%
7	P9	A private developer in Hong Kong	Private	Substructure building works services for a hotel development located at Causeway Bay, Hong Kong	Completed	22,494	6.0%
8	P1	LAML	Private	RMAA works services for a market block and commercial complex located at Tuen Mun, Hong Kong	Completed	20,885	5.5%
9	P10	Customer H	Private	Substructure building works services for a proposed commercial development located at Central, Hong Kong	On-going	20,087	5.3%
Total ^(Note 1) :						331,184	87.8%

BUSINESS

Notes:

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as “completed” means that the relevant project has achieved practical completion.
3. All our revenue recognised in this project for the year ended 31 March 2015 was attributable to superstructure building works services.

For the six months ended 30 September 2015

Rank	Project	Customer	Sector	Type	Status as at the Latest Practicable Date ^(Note 2)	Amount of revenue recognised for the six months ended 30 September 2015 <i>HK\$'000</i>	% of our total revenue for the six months ended 30 September 2015
1	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	On-going	32,743	21.1%
2	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	On-going	28,360	18.3%
3	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	On-going	25,551	16.5%
4	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	On-going	20,512	13.2%
Total ^(Note 1) :						107,166	69.1%

Notes:

1. The figures and percentages above may not add up to the total due to rounding.
2. Project described as “completed” means that the relevant project has achieved practical completion.

BUSINESS

The following table summarises our on-going projects (either in progress or yet to commence) as at the Latest Practicable Date with outstanding contract sum in descending order:

Rank	Project	Customer	Sector	Type	Contract sum HK\$'000	Accumulated revenue recognised up to the Latest Practicable Date HK\$'000	Outstanding contract sum as at the Latest Practicable Date (Note 2) HK\$'000	Revenue expected to be recognised from the Latest Practicable Date to 31 March 2016	Revenue expected to be recognised for the year ending 31 March 2017
								HK\$'000	HK\$'000
1	P17	A private developer in Hong Kong	Private	Superstructure building works services for a proposed residential development located at Shanghai Street, Kowloon, Hong Kong	98,330	4,161	94,169	2,029	92,140
2	P12	A school in Hong Kong	Private	Superstructure building works services for a redevelopment of teaching block for a school located at Stanley, Hong Kong	98,768	30,355	68,413	4,157	64,256
3	P11	Customer I	Private	Superstructure building works services for a proposed composite development located at Portland Street, Kowloon, Hong Kong	99,800	47,289	52,511	3,584	48,927
4	P13	LAML	Private	RMAA works services for a block of commercial centre located at Tuen Mun, Hong Kong	53,647	10,490	43,157	2,622	40,535
5	P7	Customer A	Private	Superstructure building works services for a residential development located at Prince Edward Road West, Hong Kong	141,000	99,817	41,183	9,209	31,974
6	P10	Customer H	Private	Substructure building works services for a proposed commercial development located at Central, Hong Kong	80,000	54,410	25,590	3,634	21,956
7	P14	A private developer in Hong Kong	Private	RMAA works services for a hotel located at Tsim Sha Tsui, Hong Kong	25,600	1,033	24,567	680	23,887

BUSINESS

Rank	Project	Customer	Sector	Type	Contract sum <i>HK\$'000</i>	Accumulated revenue recognised up to the Latest Practicable Date <i>HK\$'000</i>	Outstanding contract sum as at the Latest Practicable Date ^(Note 2) <i>HK\$'000</i>	Revenue expected to be recognised from the Latest Practicable Date to 31 March 2016	Revenue expected to be recognised for the year ending 31 March 2017
								<i>HK\$'000</i>	<i>HK\$'000</i>
8	P6	Customer D	Private	Substructure building works services for a redevelopment located at Shau Kei Wan, Hong Kong	104,600	88,865	15,735	1,268	14,467
9	P16	A private developer in Hong Kong	Private	Substructure building works services for a proposed hotel development located at Tung Chau Street, Kowloon, Hong Kong	13,980	1,199	12,781	559	12,222
10	P15	A private developer in Hong Kong	Private	Substructure building works services for a proposed composite building located at Nam Cheong Street, Kowloon, Hong Kong	13,300	1,083	12,217	532	11,685
11	P8	Customer E	Private	Superstructure building works services for a residential development located at Stanley, Hong Kong	83,205	78,730	4,475	2,007	2,468
12	P4	Customer C	Private	Superstructure building works services for a commercial development located at Tsim Sha Tsui, Hong Kong	131,000	127,402	3,598	3,598	—
Total ^(Note 1) :					943,230	544,834	398,396	33,879	364,517

Notes:

1. The figures and percentages above may not add up to the total due to rounding.
2. Outstanding contract sum as at the Latest Practicable Date = contract sum – accumulated revenue recognised as at the Latest Practicable Date.

BUSINESS

SALES AND MARKETING

During the Track Record Period, our projects were mainly awarded by way of tendering.

Among the 14 projects we have completed during the Track Record Period and up to the Latest Practicable Date and 12 on-going projects as at the Latest Practicable Date, 23 projects were awarded by way of tendering, the aggregate contract sum of which amounted to approximately HK\$[1,407] million. The remaining three projects were awarded by submitting quotations to our customers in selecting against other candidate main contractors, the aggregate contract sum of which amounted to approximately HK\$[7.3] million.

We generally adopt a flexible pricing strategy in preparing our tender submission. For details, please refer to the paragraph headed “Business — Business model and our operation — Invitation to tender and preparation of tender” in this document.

Our Directors consider that our relationship with our customers, expertise, reputation in the industry and past project references are our valuable assets to secure future projects. Our executive Directors are generally responsible for maintaining our customers’ relationship, and keeping abreast of market developments and potential business opportunities. Moreover, we believe that the [REDACTED] will be a breakthrough in promoting our Group to the general public, thus further enhancing our brand and future business development.

OUR CUSTOMERS

During the Track Record Period, our customers include LAML, church, property developers, educational institution and statutory body.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five customers were Independent Third Parties, and total revenue attributable to them amounted to approximately HK\$172.1 million, HK\$284.6 million and HK\$129.1 million, representing approximately 86.0%, 75.4% and 83.3% of our total revenue, respectively. During the same period, total revenue attributable to our largest customer amounted to approximately HK\$81.6 million, HK\$76.8 million and HK\$36.7 million, representing approximately 40.8%, 20.4% and 23.7% of our total revenue, respectively. None of our Directors, Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five customers during the Track Record Period. The following three tables set forth the details of our top five customers during the Track Record Period:

For the year ended 31 March 2014

Customer	Background	Approximate % of our total revenue	Length of business relationship with our Group
LAML	A manager of a Hong Kong real estate investment trust listed in Hong Kong	40.8%	Since 2011
Customer B	A church in Hong Kong	24.2%	Since 2012
Customer E	A private developer in Hong Kong	10.1%	Since 2012
Customer G	A private developer in Hong Kong	6.7%	Since 2013
Customer H	A private developer listed in Hong Kong	4.2%	Since 2013

BUSINESS

For the year ended 31 March 2015

Customer	Background	Approximate % of our total revenue	Length of business relationship with our Group
Customer A	A stated-owned property developer listed in Hong Kong	20.4%	Since 2014
Customer B	A church in Hong Kong	17.7%	Since 2012
Customer C	A private developer in Hong Kong	14.2%	Since 2014
Customer D	A private developer in Hong Kong	12.7%	Since 2014
Customer E	A private developer in Hong Kong	10.4%	Since 2012

For the six months ended 30 September 2015

Customer	Background	Approximate % of our total revenue	Length of business relationship with our Group
Customer A	A state-owned property developer listed in Hong Kong	23.7%	Since 2014
Customer C	A private developer in Hong Kong	18.3%	Since 2014
Customer E	A private developer in Hong Kong	16.5%	Since 2012
Customer D	A private developer in Hong Kong	13.2%	Since 2014
Customer I	A private developer in Hong Kong	11.6%	Since 2013

BUSINESS

Major contract terms with our customers

From time to time, we receive invitations to tender from our customers. In general, projects are awarded to us on a case-by-case basis and are non-recurring in nature. We did not enter into any other long term contracts with any of our customers during the Track Record Period and up to the Latest Practicable Date. The contracts we entered into with our customers vary from project to project, and were generally based on the standard forms provided by our customers subject to further negotiations by the parties on the particular terms therein. The major contract terms with our customers can be summarised below:

Major contract terms	Description
Project information	Project information includes address of the construction site, scope of works, duration, contract sum and identities of certain consultants including architect, structural engineer and quantity surveyor, already on board.
Schedule of rates	The schedule of rates is the breakdown of the contract sum itemising the works and quantities, and setting out the price or price rate of each item of works. The schedule of rates may also contain provisional items and/or re-measurement items of works.
Terms of payment	<p>We receive progress payment from our customers pursuant to the contract. In general, for every one month, we prepare a statement setting out our estimate of the value of the works completed in the preceding month and submit the statement together with the payment application to our customers. Upon receiving such statement with our payment application, the architect and/or quantity surveyor of our customer shall assess our estimation and issue an interim certificate certifying the works completed in the preceding month. In general, it takes around 14 days from the date of our payment application to issue the interim certificate. Our customer will then make payment based on the certified amount less any retention money. Payments will normally be made by our customers within 30 days from the date of the issuance of the interim certificate.</p> <p>In general, within three months after the expiry of the defect liability period and making good the defects, our customer will issue the final certificate to state the sum of all amounts previously certified and the contract sum as adjusted pursuant to the contract. Such difference shall be settled by our customer or us, as the case may be, within 14 days from the final certificate date.</p>
Re-measurement and variation order	Please also refer to the paragraph headed "Business — Business model and our operation — Construction — Re-measurement and variation order" in this document.

BUSINESS

Major contract terms	Description
Surety bond	We are generally required to at our own cost obtain the guarantee of a licensed bank or insurance company in Hong Kong to be jointly and severally bound with us to our customer in a specified sum for the due performance of the contract under the terms of a bond in a specified format. The surety bond is generally released upon the practical completion. The surety bonds provided by our Group during the Track Record Period are generally in an amount not exceeding 4% of the contract sum.
Defect liability period	We are required to make good any defects at our own cost within the defect liability period, which is generally 12 months, after the practical completion.
Retention money	<p>The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount of each interim payment until the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.</p> <p>On the issue of the practical completion certificate, part of the retention money being retained will be released to us.</p> <p>After we have made good the defect to our customer’s satisfaction, the residue of the retention money being retained will be released to us.</p>
Insurance	We, as the main contractor, are required to take out the employees’ compensation insurance, contractor’s all risks and third party liability insurance, insurance for the construction plant and equipment brought onto the site for the contract.
Extension of time	If the progress of the works is likely to be delayed due to certain situations as stipulated under the contract such as force majeure, variation orders and discovery of antiquities on the site, our customers shall estimate the length of the delay and make a fair and reasonable extension of time for completion of the works.
Liquidated damages	In general, failure to complete on time will result in liquidated damages against us calculated according to an agreed daily rate under the contract.
Termination	Our customers are generally entitled to terminate our contracts if (i) we without reasonable cause wholly suspend the carrying out of the works before completion; (ii) we fail to proceed regularly and diligently with the works; (iii) we fail to comply with the written notices or orders from the architects of the customers causing the works being materially affected; or (iv) we become bankrupt or make arrangement with our creditors or have a winding up order or have a resolution for voluntary winding up or a receiver is appointed.

Please also refer to the paragraph headed “Business — Business model and our operation” in this document.

BUSINESS

OUR SUPPLIERS

Our suppliers, besides our subcontractors, include lessors of machinery and local distributors of construction materials.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our top five suppliers were Independent Third Parties, and our total purchase attributable to them amounted to approximately HK\$27.3 million, HK\$47.8 million and HK\$12.7 million, representing approximately 46.5%, 40.9% and 31.5% of our total purchase, respectively. During the same period, our total cost attributable to our largest supplier amounted to approximately HK\$11.3 million, HK\$15.7 million and HK\$4.2 million, representing approximately 19.2%, 13.4% and 10.3% of our total purchase, respectively. None of our Directors, Shareholders (who to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five suppliers during the Track Record Period. Further, our suppliers engaged by us are not our major customers, nor vice versa. The following three tables set forth the details of our top five suppliers (excluding subcontractors) during the Track Record Period:

For the year ended 31 March 2014

Supplier	Background	Approximate % of our total purchase	Length of business relationship with our Group
Supplier B	Steel materials supplier listed in Hong Kong	19.2%	Since 2010
Supplier A	Steel materials supplier	13.6%	Since 2010
Supplier F	Concrete material supplier	6.5%	Since 2012
Supplier G	Petroleum products (including diesel oil) supplier	3.7%	Since 2012
Supplier H	Equipment and appliances supplier	3.5%	Since 2013

BUSINESS

For the year ended 31 March 2015

Supplier	Background	Approximate % of our total purchase	Length of business relationship with our Group
Supplier A	Steel materials supplier	13.4%	Since 2010
Supplier B	Steel materials supplier listed in Hong Kong	9.7%	Since 2010
Supplier C	Stone materials supplier	6.5%	Since 2014
Supplier D	Construction machinery and consumables supplier	6.2%	Since 2014
Supplier E	Concrete materials supplier	5.1%	Since 2012

For the six months ended 30 September 2015

Supplier	Background	Approximate % of our total purchase	Length of business relationship with our Group
Supplier A	Steel materials supplier	10.3%	Since 2010
Supplier B	Steel materials supplier listed in Hong Kong	5.9%	Since 2010
Supplier I	Stone materials supplier	5.7%	Since 2015
Supplier C	Stone materials supplier	5.0%	Since 2014
Supplier J	Concrete material supplier	4.6%	Since 2012

Subcontracting

During the Track Record Period, our subcontracted works include but not limited to foundation works, metal works, electronic engineering works and formwork works. In general, our engagements with our subcontractors are on a case-by-case basis and are non-recurring in nature. We did not enter into any other long term contracts with any of our subcontractors during the Track Record Period and up to the Latest Practicable Date.

Our subcontracting fee is generally determined based on the estimated costs to be incurred by our subcontractors, mainly including labour cost, costs of construction materials and/or machinery usage cost, plus a certain mark-up margin.

BUSINESS

During the Track Record Period, we engaged approximately 90 subcontractors. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total cost in engaging our subcontractors amounted to approximately HK\$82.1 million, HK\$161.2 million and HK\$70.3 million, representing approximately 49.5%, 49.0% and 53.1% of our total direct costs, respectively.

For the same periods, the cost in engaging our top five subcontractors amounted to approximately HK\$45.3 million, HK\$74.8 million and HK\$34.1 million respectively, representing approximately 55.1%, 46.4% and 48.6% of our total cost in engaging our subcontractors respectively.

For the same periods, the cost in engaging our largest subcontractor amounted to approximately HK\$12.6 million, HK\$30.9 million and HK\$14.8 million respectively, representing approximately 15.3%, 19.2% and 21.0% of our total cost in engaging our subcontractors respectively.

The following three tables set forth the details of our top five subcontractors during the Track Record Period:

For the year ended 31 March 2014

Subcontractor	Type of subcontracting works performed	Approximate % of our total subcontracting cost	Length of business relationship with our Group
Subcontractor B	Metal works	15.3%	Since 2010
Subcontractor A	Foundation works	15.2%	Since 2012
Subcontractor F	Electronic engineering works	10.9%	Since 2010
Subcontractor G	Mechanical ventilation and air conditioning (MVAC) works	7.4%	[Since 2013]
Subcontractor H	Piling Works	6.3%	[Since 2013]

For the year ended 31 March 2015

Subcontractor	Type of subcontracting works performed	Approximate % of our total subcontracting cost	Length of business relationship with our Group
Subcontractor A	Foundation works	19.2%	Since 2012
Subcontractor B	Metal works	9.4%	Since 2010
Subcontractor C	Wooden works, fire-proof doors and various decoration works	6.3%	Since 2012
Subcontractor D	Formwork works	6.1%	[Since 2014]
Subcontractor E	Sundry works (including cleaning works, painting works, concrete works, underground cable, utility and telephone works, etc.)	5.4%	Since 2009

BUSINESS

For the six months ended 30 September 2015

Subcontractor	Type of subcontracting works performed	Approximate % of our total subcontracting cost	Length of business relationship with our Group
Subcontractor A	Foundation works	21.0%	Since 2012
Subcontractor I	Curtain wall and aluminium window works	7.9%	Since 2015
Subcontractor E	Sundry works (including cleaning works, painting works, concrete works, underground cable, utility and telephone works, etc.)	6.9%	Since 2009
Subcontractor B	Metal works	6.8%	Since 2010
Subcontractor J	Formwork works, Mechanical ventilation and air conditioning (MVAC) works, temporary propping works	6.0%	Since 2015

Since we generally have to bear responsibilities to our customers in respect of the defective works and/or delays in works of our subcontractors, our Directors consider that a stringent selection arrangement of our subcontractors is necessary. We maintain an internally approved list of subcontractors, which will be subject to our regular review based on a number of factors, including but not limited to, previous working relationship with us, business reputation, work capacity, work quality of previous projects, terms of payment and pricing level, and record of safety and environmental compliance.

For each subcontract, we generally invite more than one subcontractors from our internal approved list of subcontractors for quotations and our executive Directors will choose the most suitable subcontractor. Subcontracting cost, previous working relationship with us, work quality and work efficiency are the major selection criteria of our executive Directors. Further, to minimise the concentration risk and avoid reliance on particular subcontractors, we generally try to diversify our subcontracting engagements with our different subcontractors.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties or delays in performing our contracts due to material difficulties in identifying or engaging the required subcontractors. Further, our Directors considered that we had stable relationships with our subcontractors and confirmed that we had no material dispute with our subcontractors in respect of the subcontracts with them during the Track Record Period.

BUSINESS

The contracts we entered into with our subcontractors vary from project to project, and were generally based on our standard forms subject to further negotiations by the parties on the particular terms therein. The major contract terms with our subcontractors can be summarised below:

Major contract terms	Description
Project information	Project information includes address of the construction site, scope of works, works commencement date, duration and contract sum.
Schedule of rates	The schedule of rates is the breakdown of the contract sum itemising the works and quantities, and setting out the price or price rate of each item of works. The schedule of rates may also contain provisional items and/or re-measurement items of works.
Terms of payment	<p>On or before the fifteenth (15th) day of each calendar month, our subcontractors shall submit payment application to us, which shall contain the quantity of completed works certified by our foreman together with receipts and/or records showing due payment of salary to their employees and the employees of their sub-subcontractors (if any).</p> <p>Upon receiving such payment application, we shall assess and certify the amount to be paid and make payment based on the certified amount less any retention money on the thirtieth (30th) day of the same calendar month.</p> <p>In general, within 12 months after the practical completion, we will access and settle the final payment to our subcontractors.</p> <p>We generally settle the payment by cheque or bank transfer in Hong Kong dollars.</p>
Defect liability period	Our subcontractors are required to make good any defects at their own cost within the defect liability period, which is generally 12 months, after the issue of the practical completion certificate by the architect of our customer.
Retention money	<p>The amount of retention money being retained is generally agreed to be approximately 10% of the certified amount of each interim payment and the total amount of retention money reaches approximately 5% of the contract sum which is the maximum amount to be retained.</p> <p>On the issue of the practical completion certificate by the architect of our customer, half of the retention money being retained will be released to our subcontractors.</p> <p>On the issue of the certificate of completion of making good defects by the architect of our customer after the defect liability period, the residue of the retention money being retained will be released to our subcontractors.</p>

BUSINESS

Major contract terms	Description
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Termination	We are generally entitled to terminate the contracts with our subcontractors if (i) our subcontractors fail to perform the contracts; (ii) our subcontractors are unable to complete the works; (iii) the construction is suspended with no indication to restore forthwith; or (iv) our subcontractors face legal sanction and can no longer continue to complete the works.
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Procuring construction materials

The construction materials that we purchased are mainly concrete and steel. We procure the same from local distributors in Hong Kong. We purchase concrete and steel for our subcontractors to carry out the works, and diesel fuel to operate our machinery at construction sites.

In general, our subcontractors are required to equip themselves with the necessary construction materials to complete the works subcontracted to them.

Our subcontracting fee is generally determined based on the estimated costs to be incurred by our subcontractors, mainly including labour cost, costs of construction materials and/or machinery usage cost, plus a certain mark-up margin.

As such, the quotations submitted to us from our subcontractors would include the cost of construction materials to be incurred by them if the same shall be purchased by them.

According to the experience of our executive Directors, for the concrete and steel, we, as a main contractor, are able to secure a more favourable price from the suppliers than the subcontractors [generally due to quantity discount and our better financial status than our subcontractors]. As such, it would be more cost saving to the project as a whole if we purchase the concrete and steel for our subcontractors to carry out the works. As to the construction materials other than concrete and steel, including wood, bolts, nails, minor tools, minor parts and hardware, our executive Directors consider that the purchase prices secured by us as a main contractor and our subcontractors are similar and therefore we would stick to the general practice that they shall be purchased by our subcontractors and included in our subcontracting charges.

In general, the quotations as we agreed with our suppliers of construction materials set out, among others, specification, quantity, delivery period, price rate and credit period. Besides, there are agreed quotations which set out the price rate of the construction materials for an agreed delivery period but without specifying the quantity to be ordered. During the delivery period, when we need the construction materials, we will inform the suppliers our required quantity for them to arrange delivery. The total price is determined by the price rate under the agreed quotation. With such arrangement, we are able to secure stable supply of the construction materials but we may be required by our supplier to use its construction materials as specified under the agreed quotation exclusively throughout the delivery period for a particular project.

The construction materials we purchased are sent to the site directly by our suppliers. We do not keep any construction materials as inventory because they are procured on a project-by-project basis in accordance with the specifications. We generally settle the payment to our supplier of construction materials within 30 days after delivery. We generally settle the payment by cheque or bank transfer in Hong Kong dollars. Save aforesaid, we do not enter into any long-term supply agreement with our construction materials suppliers.

BUSINESS

When the market price of the construction materials increases, for the potential projects, we can increase our tender price to our customers in order to transfer the increased cost pressure to our customers at the time of the tendering process. Nevertheless, we are not able to do so for the projects in progress because our contracts with our customers generally do not have any price adjustment mechanism for market price fluctuation of the construction materials.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the purchases of concrete and steel amounted for approximately HK\$[27.7] million, HK\$[48.1] million and HK\$[10.3] million, representing approximately [47.3]%, [41.3]% and [25.4]% of our Group's total material and processing charges, respectively. The purchases of concrete and steel increased from approximately HK\$[27.7] million for the year ended 31 March 2014 to approximately HK\$[48.1] million for the year ended 31 March 2015 mainly because of [(i) an increase in the number of superstructure projects from two in the year ended 31 March 2014 to six in the year ended 31 March 2015 and concrete and steel are major construction materials of substructure and superstructure work, (ii) an increase in the usage of concrete and steel from one substructure project namely P6, and two new superstructure project namely P7 and P8, which together incurred a purchase cost of approximately HK\$14.8 million during the year ended 31 March 2015.] The purchases of steel and concrete decreased from approximately HK\$[16.4] million for the six months ended 30 September 2014 to approximately HK\$[10.3] million for the six months ended 30 September 2015 mainly because of [(i) the two projects of our Group on substructure works, namely P3 and one substructure project at Wanchai, Hong Kong were completed during the year ended 31 March 2015; (ii) the decrease in the number of our Group's ongoing projects on substructure works from six during the six months ended 30 September 2014 to three during six months ended 30 September 2015; and (iii) there were two projects of our Group on superstructure works namely P4 and P8 which were at a stage which required less concrete and steel during the six months ended 30 September 2015, as these two superstructure projects were in the stage which the main construction works were curtain wall and aluminium window and elevator installation]. For details, please refer to the paragraph headed "Financial information — costs of revenue" in this document.

According to the Ipsos Report, the average wholesale price of steel reinforcements decreased from approximately HK\$5,733.8 per tonne in 2010 to approximately HK\$3,840.9 per tonne in 2015, at a CAGR of about -7.7%, and the average wholesale price of concrete in Hong Kong had been relatively stable, and had increased from an average of about HK\$60.0 per square metre in 2010 to an average of about HK\$79.9 per square metre in 2015, at a CAGR of about 5.9%.

In view of the aforesaid, our Directors consider that our fluctuations on the purchases of concrete and steel during the Track Record Period were not attributable to the wholesale price fluctuations of concrete and steel during the same period. As such, our Directors consider our Group's risk exposure to wholesale price fluctuations of concrete and steel is relatively low.

In stating so, to minimise such risk, and also to ensure stable supply of construction materials for the project, we target to negotiate for locking favourable price rate for a longer delivery period by securing a quote from our suppliers instead of procuring the construction materials on an order-by-order basis. As such, our Directors consider that such cost pressure risk is minimal. Since there are a number of suppliers of construction materials in Hong Kong, our Directors consider that it is feasible to engage alternative suppliers of construction materials for our Group. As such, our Directors consider that we did not overly rely on our suppliers of construction materials.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our total purchase cost of concrete, steel and other construction materials amounted to approximately HK\$58.5 million, HK\$116.6 million and HK\$40.4 million, representing approximately 35.3%, 35.5% and 30.5% of our total direct costs, respectively.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not experience any material difficulties or delays in performing our contracts due to material shortages or delays in supply of construction materials.

Leasing machinery

For those subcontractors that we need to provide them machineries, we either provide them our own machineries or machineries leased from our suppliers (as agreed and included in the subcontract price). For details on our own machinery, please refer to the paragraph headed “Business — Our Machinery” in this document.

During the Track Record Period, the machineries we leased from our suppliers include generators, cranes and air compressors. Our Directors consider that this rental arrangement could increase our flexibility.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the total machinery rental costs from our suppliers amounted to approximately HK\$3.4 million, HK\$8.9 million and HK\$2.0 million, representing approximately 2.1%, 2.7% and 1.5% of our total direct costs respectively.

BUSINESS

OUR MACHINERY

As at 30 September 2015, we own 19 sets of machinery, details of which are set forth in the following table:

No.	Type of machinery	Function and usage	Countries of origin	Year of acquisition	Cost of acquisition (HK\$'000)	Weighted average age (Years)	Weighted average of remaining useful life (Years)
1.	Crane	Lifting heavy things and transporting them to other places	Japan	2013	470	2.26	2.74
2.	Crane		Italy	2015	85	0.84	4.16
3.	Excavator	Heavy construction equipment consisting of a boom, stick, bucket and cab on a rotating platform known as the “house”	Japan	2013	220	2.12	2.88
4.	Excavator		The PRC	2013	105	2.12	2.88
5.	Excavator		Hong Kong	2013	260	1.94	3.06
6.	Excavator		Japan	2014	580	1.54	3.46
7.	Excavator		The United State	2014	105	1.30	3.70
8.	Grout pump	Injecting a grout material into generally isolated pore or void space	Hong Kong	2013	160	1.94	3.06
9.	Grout pump		Hong Kong	2014	280	1.49	3.51
10.	Crawler drill	Drilling holes	Hong Kong	2014	2,169	1.88	3.12
11.	Crawler drill		Japan	2014	750	1.59	3.41
12.	Crawler drill		Korea	2014	130	1.55	3.45
13.	Crawler drill		The PRC	2014	1,320	1.38	3.62
14.	Crawler drill		The PRC	2014	1,320	1.38	3.62
15.	Crawler drill		Japan	2014	850	0.97	4.03
16.	Generator	Converting mechanical energy to electrical energy for use in an external circuit	Japan	2014	126	1.52	3.48
17.	Air compressor	Converting power into potential energy stored in pressurised air	The PRC	2014	790	1.50	3.50
18.	Air compressor		The PRC	2014	791	1.34	3.66
19.	Air compressor		The PRC	2014	<u>778</u>	1.32	3.68
Total:					<u><u>11,289</u></u>		

BUSINESS

We engage Independent Third Parties to repair and maintain our machinery on a regular basis. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our expenses in repairing and maintaining our machinery, including the expenses of purchasing consumable machinery spare parts for regular replacement, accounted for approximately HK\$0.1 million, HK\$1.1 million and HK\$0.3 million respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material work interruption due to malfunction of our machinery.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, the amount incurred in acquiring new machinery accounted for approximately HK\$4.1 million, HK\$8.0 million and HK\$nil respectively. As at 30 September 2015, our machinery had a total net book value of approximately HK\$7.8 million.

To facilitate capacity expansion, approximately HK\$[REDACTED] of the net proceeds from the [REDACTED] will be used to acquire new machinery in the next two years. The impact of such acquisitions on depreciation charges for each of the four years ending 31 March 2020 amounts to approximately HK\$[REDACTED], HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED], respectively.

Utilisation rate

In view of the nature of our business and operations, our Directors consider that it is not feasible or practicable to accurately quantify the service capacity and utilisation rate of our machinery due to the following reasons:

- different types of project at different stages involve the use of different machineries. In general, for example, drilling rigs are more heavily used in the substructure building works projects, whereas the use of cranes is required in the substructure building works and superstructure building works. As such, machineries from time to time are left unused in active construction sites pending completion of other stages. Also, machineries are sometimes left unused for assembling, disassembling, repairing and maintenance works to be carried out. Due to the aforesaid, our Directors are of the view that it would be difficult to accurately measure an overall utilisation rate for our machinery in general. Further, it is not practicable for us to accurately record the daily or hourly usage of each individual machinery;
- each type of machinery is highly specific to different types of works. Given that we provided extensive services during the Track Record Period, it is not practicable to reliably quantify the capacity of each piece of machinery by making reference to an objective and comparable scale or standard of measurement; and
- as at 30 September 2015, we had 19 sets machinery and generally six types of machinery of various functions, sizes and capacity in use. Given that different machineries are required to be used in different types and stages of projects, and in view of the number of machineries owned by us, it would be difficult for us to identify one or a few types of machinery that are most crucial to our operation.

In view of the aforesaid, the collection of reliable and accurate data, including the hourly usage rate of each particular machinery, required for the calculation of the utilisation rates is infeasible in practice.

During the Track Record Period, when our machinery was not deployed for use, they would generally be transferred or placed at a site leased by our Group located at The Remaining Portion of Lot No. 1251 in D.D. 79, North New Territories, Hong Kong, pending further deployment in projects when necessary. In addition, as a project may involve various categories of works, we may optimise our operational efficiency by having an effective scheduling in deploying our machinery.

BUSINESS

QUALITY CONTROL

We have established a quality management system with the objective to, among others, complete the works on time, achieve quality standards, and reduce the waste of time and resources.

Members of our project teams have different roles and responsibilities in respect of our quality management system. In general, our executive Directors are responsible to, among others, evaluate and approve subcontractors’ bids and assess their performance, and regularly check the implementation of our quality management system. Our project managers are responsible to, among others, develop and approve quality plans and implement quality control system, and manage and supervise quality control and quality assurance. Our quantity surveyors are responsible for, among others, overall control of project cost. Our foremen are responsible to, among others, supervise site working teams, plan and coordinate daily site activities and arrangement, and implement quality control system and ensure works done according to specification and quality control plans.

Further, our executive Directors are also responsible to review our quality management system annually to ensure its continuing suitability, adequacy and effectiveness.

In recognition of our quality management system, we are certified as being in compliance with the requirements of ISO 9001:2008. For details, please refer to the paragraph headed “Business — Awards, certifications and corporate social responsibilities” in this document.

MAJOR QUALIFICATIONS AND LICENSES

As at the Latest Practicable Date, we had obtained the following licenses and qualifications which are material for us to operate our business in Hong Kong:

Issuing authorities	Relevant list/category	Qualification/License	Holder	Validity period
Buildings Department	Foundation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	Up to 18 December 2016
Buildings Department	Site Formation Works	Registered Specialist Contractor	Ching Lee Engineering Limited	Up to 18 December 2016
Buildings Department	N/A	Registered General Building Contractor	Ching Lee Engineering Limited	Up to 24 January 2017
Works Branch Development Bureau	Repair and Restoration of Historic Buildings	Approved Suppliers and Materials and Specialist Contractors for Public Works	Ching Lee Engineering Limited	Effective from 22 April 2009 ^(Note)

Note: Not subject to any periodic renewal conditions.

With the support of the advice of our legal advisers as to Hong Kong laws, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained all the necessary licenses, permits, consents and approvals for our business operation in Hong Kong and all of them are valid.

BUSINESS

AWARDS, CERTIFICATIONS AND CORPORATE SOCIAL RESPONSIBILITIES

In recognition of our quality control system, we have obtained a number of certifications which are set out as follows:

Certifications	Year of Grant	Description	Issuing organisation	Expiry date
ISO 9001: 2008	2006	Certification of quality management system <i>(Note 1)</i>	Castco Certification Services Limited	8 March 2018
ISO 14001: 2004	2009	Certification of environmental management system <i>(Note 1)</i>	Castco Certification Services Limited	22 July 2018

Note:

1. The certification concerns our construction, maintenance, renovation, alteration and addition of building works and service.

We have observed our environmental and safety responsibility and have been committed to memberships of environmental and safety organisations during our operating history. The following table sets out a summary of our commitments and award:

Membership/Awards	Year	Description	Organisation
Occupational Safety Charter	2012	Member to the Occupational Safety Charter	H.K. General Building Contractors Association
Corporate member	2012	Member to the Hong Kong Institute of Environmentalists	The Hong Kong Institute of Environmentalists
Zero Accident Achievement Award	2012	Safety award	H.K. General Building Contractors Association

COMPETITION

According to the Ipsos Report, the substructure building works industry in Hong Kong was consolidated with the top ten players accounted for approximately 69.2% of the total industry revenue. Nevertheless, the superstructure building works industry in Hong Kong was considered as fragmented, with the top five players accounted for approximately 23.0% of the total industry revenue in 2014. Similarly, the top five players in the RMAA works industry in Hong Kong accounted for approximately 8.2% of the total industry revenue in 2014.

According to the Ipsos Report, the factors of competition in substructure building works industry in Hong Kong mainly include established reliable working relationships with customers, subcontractors, construction materials suppliers and workers, experience in substructure works project management and technical expertise, and reputation and track record. As to superstructure building works industry in Hong Kong, the factors of competition mainly include quality of works, and relationship with private developers. As to RMAA works industry in Hong Kong, the factors of competition mainly include reputation and track record, price, market share and size of the main contractor, and whether the main contractor is specialised in related field of the project such as hospital.

BUSINESS

Our Directors consider that our main competitors in the construction main contracting industry are mainly main contractors in Hong Kong which provide either substructure building works services, superstructure building works services or RMAA works services, and also focus on undertaking projects in private sectors. As revealed by the Ipsos Report, industry expertise and experience, and track record are two of the major entry barriers in the construction main contracting industry in Hong Kong.

In view of the competition in the industry, we believe that we are well equipped to compete with our competitors on our competitive strengths. We consider that our competitive strengths have contributed to our success. As such, even though competition within the construction main contracting industry in Hong Kong will continue to intensify in the future, we are confident that we are able to withstand the intense competition with our competitive strengths. For further details of our competitive strengths, please refer to the paragraph headed “Business — Our competitive strengths” in this document.

OUR EMPLOYEES

As at the Latest Practicable Date, we had approximately 78 full-time employees who were directly employed by us in Hong Kong. The following table sets out the number of our employees by their functional role:

Functional role	Number
Director	3
Tendering	2
Project management	28
Safety	8
Purchasing	1
Administrative	19
Construction site workers	<u>17</u>
Total:	<u><u>78</u></u>

Our department heads will prepare annual department headcount budgets for their respective department. Our project teams will also prepare their respective project forecasts. All these will be consolidated and submitted to our management for approval. If any of our departments and/or project teams need recruitment, requisition form would be prepared stating the reasons for requisition, key areas of responsibilities, job specifications and any extra requirements. Our human resources manager will approve such requisition form and then issues recruitment advertisement.

We recruit our employees based on a number of factors such as their work experience, educational background, qualifications or certifications possessed and vacancies. We may recruit our employees by advertising on websites. During the Track Record Period, we did not engage any human resources agency for recruitment purpose.

Our new employees are generally subject to a three-month probation. On-the-job training will be provided to our new employees during the probation period by their respective supervisors. At the end of the probation period, we will conduct performance evaluation and the same is to be approved by our management before our new employees are appointed as our permanent employees.

Education and training will also be provided to our existing employees on various aspects including advanced knowledge and skills on machinery operation, work safety and quality control on a continuing basis. Our Directors consider that our training programme can increase our overall efficiency and facilitate us to retain quality employees.

BUSINESS

The remuneration package for our employees generally includes salary and bonuses. Our employees also receive welfare benefits, including exam leave, retirement benefits, occupational injury insurance, medical insurance and other miscellaneous items. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees. Our executive Directors will also conduct research on the remuneration packages offered for similar positions in the Hong Kong construction main contracting industry in order to keep our remuneration packages at a competitive level. We have also adopted the Share Option Scheme which will become effective upon [REDACTED]. The Share Option Scheme is designed to provide incentives and rewards to our employees.

We have not set up any trade union for our employees. We have not had any strikes or other material labour disputes that have materially disrupted our operations, during the Track Record Period and up to the Latest Practicable Date. Our Directors believe that we have maintained a good working relationship with our employees.

Our direct labour cost, including wages, salaries and other employee's benefits, amounted to approximately HK\$3.3 million, HK\$12.8 million and HK\$6.0 million for each of the two years ended 31 March 2015 and the six months ended 30 September 2015, respectively which amounted to approximately 2.0%, 3.9% and 4.6% of our total direct costs respectively for the same periods.

OUR PROPERTIES

Real properties

As at the Latest Practicable Date, our Group held four properties in Hong Kong. As part of the Reorganisation, we disposed of one property to Strong Knight, acquired one property from Mr. Ng and acquired three properties from Strong Knight, all of which were completed before [REDACTED]. As such, we own in total seven properties in Hong Kong upon [REDACTED], all of which are for our own use. The following table sets out the information of the properties we owned as at the Latest Practicable Date and properties disposed of and acquired by us pursuant to the Reorganisation:

No.	Address	Registered owner as at the Latest Practicable Date	Registered owner upon [REDACTED]	Usage	Approximate saleable area (sq. ft.)
1.	Shop 2, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Right Lucky	Right Lucky	Office	420
2.	Shop 3, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon ^(Note 1)	Mr. Ng	Right Lucky	Office	405
3.	Shop 4, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Ching Lee Construction	Ching Lee Engineering	Office	327
4.	Shop 5, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon	Right Lucky	Right Lucky	Office	336
5.	Shop 11, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon ^(Note 2)	Strong Knight	Right Lucky	Office	377
6.	Shop 12, 2/F, Hang Bong Commercial Centre, 28 Shanghai Street, Kowloon ^(Note 3)	Strong Knight	Right Lucky	Office	231
7.	Workshop 6, 8/F, Ho Lik Centre, 66A Sha Tsui Road, New Territories ^(Note 4)	Strong Knight	Right Lucky	Storage	501
8.	Flat B, 27/F, Tower 7, Island Harbourview, 11 Hoi Fai Road, Kowloon ^(Note 5)	Ching Lee Engineering	Strong Knight	Residential	916

BUSINESS

Notes:

1. We acquired such property from Mr. Ng at a consideration of HK\$5,850,000 pursuant to a sale and purchase agreement dated 15 February 2016 entered into between Mr. Ng and Right Lucky.
2. We acquired such property from Strong Knight at a consideration of HK\$5,340,000 pursuant to a sale and purchase agreement dated 15 February 2016 entered into between Strong Knight and Right Lucky.
3. We acquired such property from Strong Knight at a consideration of HK\$3,310,000 pursuant to a sale and purchase agreement dated 15 February 2016 entered into between Strong Knight and Right Lucky.
4. We acquired such property from Strong Knight at a consideration of HK\$2,580,000 pursuant to a sale and purchase agreement dated 15 February 2016 entered into between Strong Knight and Right Lucky.
5. We disposed of such property to Strong Knight at a consideration of HK\$16,300,000 which generated a gain on disposal for Ching Lee Engineering in the amount of approximately HK\$12,254,000 based on the above estimated disposal price and the carrying amount of the property of HK\$4,046,000 as at 30 September 2015.

As at the Latest Practicable Date, the above eight properties were subject to mortgage in favour of several authorised institutions in Hong Kong for the purpose of securing various facilities granted to our Group. As advised by our legal advisers as to Hong Kong laws, save as disclosed above and in this document, the above eight properties in Hong Kong possess good and marketable title under the laws of Hong Kong as at the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, none of the above eight properties was subject to compulsory order for sale or auction in public pursuant to the Land (Compulsory Sale for Redevelopment) Ordinance (Chapter 545 of the laws of Hong Kong).

For further details of the above eight properties, please refer to the Property Valuation Report set out in Appendix III to this document.

Leased properties

The following table sets out the addresses, approximate floor area and the lease terms of the properties leased by us as at the Latest Practicable Date:

No.	Address	Our use of property	Approximate floor area (sq. ft.)	Term	Rental type
1.	Office 9 on 13th Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street, Kowloon	Office	413 (Note 1)	From 15 October 2015 to 14 October 2017	From 8 October 2015 to 14 October 2015: rent free From 15 October 2015 to 14 October 2017: basic rent
2.	Office 6 on 11th Floor, Hang Bong Commercial Centre, No. 28 Shanghai Street Kowloon	Office	301 (Note 1)	From 15 January 2016 to 14 January 2018	Basic rent
3.	(Room D8) Unit D on 7th Floor, Centro-sound Industrial Building, No. 6 A Kung Ngam Village Road, Hong Kong	Storage	286 (Note 2)	From 15 April 2014 to 30 April 2016	Basic rent

BUSINESS

No.	Address	Our use of property	Approximate floor area (sq. ft.)	Term	Rental type
4.	Flat A2 on 6/F, Hankow Centre, No. 47 Peking Road, No. 4A Ashley Road & No. 1C Middle Road, Kowloon	Staff quarter (Note 4)	588 (Note 2)	From 26 April 2014 to 25 April 2016	From 26 April 2014 to 30 April 2014: rent free From 1 May 2014 to 25 April 2016: basic rent
5.	Flat 2 on 9 the Floor, Wah May Buiding Block B, No. 211 Portland Street, Kowloon	Staff quarter	307 (Note 2)	From 1 April 2015 to 31 March 2017	Basic rent
6.	Flat A on 20th Floor, Amber Lodge, No. 23 Hollywood Road, Hong Kong	Staff quarter (Note 4)	440 (Note 1)	From 23 March 2015 to 22 March 2017	Basic rent
7.	Portion of the Remaining Portion of Lot No. 1251 in D.D. 79, at Ng Chow Road, Ping Che, North New Territories, Hong Kong	Open storage	7,800 (Note 3)	From 15 December 2015 to 14 December 2019 (Note 5)	From 13 December 2015 to 14 December 2015: rent free From 15 December 2015 to 14 December 2019: basic rent

Notes:

1. Leased property nos. 1, 2 and 6 are stated in gross floor area.
2. Leased property nos. 3, 4 and 5 are stated in saleable area, as gross floor area is not available.
3. Leased property no. 7 is stated according to the site area scaled from the relevant lot index plan and tenancy plan.
4. Leased property no. 4 and 6 were, and still are, subject to mortgages and the relevant consents of the mortgagees for the grant of the leases in respect of the properties have not been obtained.
5. Lease of leased property no. 7 had been duly registered on 5 January 2016 under Land Registration Ordinance (Chapter 128 of the laws of Hong Kong). As advised by the Legal Counsel, the current use for open storage of construction equipment complies with the approved land use.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our operating lease rental on land and buildings amounted to approximately HK\$221,000, HK\$355,000, and HK\$163,000, representing approximately 0.1%, 0.09%, 0.1% respectively of our total revenue for the same periods.

BUSINESS

INSURANCE

As a main contractor, we are required to cover our projects with sufficient employees’ compensation insurance and contractor’s all risks insurance. Insurance coverage of contractor’s all risks insurance for each project should be determined based on the contract documents of the relevant project. For the purpose of seeking quotation from insurance companies, we generally provide them information and documents of the relevant project such as letter of award, scope of works, estimated contract value, insurance requirement, period of insurance cover and limit of indemnity.

We also maintain a list of insurance policies to make sure our employees’ compensation insurance and contractor’s all risks insurance covered the entire period of our projects. Once there are work accidents, we shall commence investigation and follow up with insurance claim progress according to the relevant insurance policy.

We also maintain insurance policies to protect our offices and warehouses against a range of contingencies, including, among others, loss and theft of, and damage to, our property, machinery and equipment. We also maintain personal injury insurance and work-related injury insurance for our Directors and employees working in our offices and warehouses, and medical insurance for all our employees. For machines acquired under finance leases or mortgages, the banks also require us to maintain insurance coverage over those machines.

Our Directors believe that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and are in line with the industry norm. For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our insurance expenses were approximately HK\$5.2 million, HK\$10.8 million and HK\$2.8 million respectively.

ENVIRONMENT

We have established an environmental management system. For each project, we would identify environmental issues and assess the associated impacts on certain aspects including but not limited to, use of materials and resources, materials storage, waste management, water pollution, air emission and noise, and if necessary, we will revise our environmental protection plan implemented.

In recognition of our environmental management system, we were awarded the ISO 14001:2004 (environment management system standard) in 2009. For details, please refer to the paragraph headed “Business — Awards, certifications and corporate social responsibilities” in this document.

For details of the laws and regulations in relation to environmental protection applicable to our business, please refer to the paragraph headed “Regulatory overview — B. Laws and regulations in relation to environmental protection” in this document.

For each of the two years ended 31 March 2015 and the six months ended 30 September 2015, our cost of compliance with the applicable environmental laws and regulations in Hong Kong were approximately HK\$1.9 million, HK\$2.8 million and HK\$1.2 million respectively, which primarily consisted of construction waste transportation costs and dumping charges. Our executive Directors expect that such cost of compliance to be incurred in future will increase for the two years ending 31 March 2017 primarily because of the increasing number of projects after implementation of our expansion plan.

During the Track Record Period and up to the Latest Practicable Date, we were not prosecuted for any breach of any applicable environmental laws and regulations.

BUSINESS

WORK SAFETY

Risks of accidents and injuries to workers in construction sites are inherent. We have implemented occupational health and safety measures for our employees and the employees of our subcontractors. For details of our occupational health and safety measures, please refer to the paragraph headed "Occupational health and safety measures" below.

As at the Latest Practicable Date, we had three registered safety officers, to monitor and implement our occupational health and safety measures. We also had five safety supervisors to station on and/or regularly visit and inspect our construction sites. One of our registered safety officers and four of our safety supervisors have passed the examination in first aid certificate course.

When our foreman, assistant foreman and/or safety supervisor in each construction site discover any work injury, they will first arrange the injured person to receive proper medical treatment. Sick leave will also be granted according to the medical certificate received by the injured person (if any) after medical treatment. In the meantime, report about such work injury will be made to the Commissioner for Labour under the Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong) and to the insurance company under the relevant insurance policy.

We also maintain an internal record of our work injuries. For each of the calendar years 2013, 2014 and 2015, we recorded two, nil and nil work injuries of our employees, respectively, of which one claim has been settled with a total amount of HK\$199,040 and was fully settled by our insurer. The remaining unsettled claim is currently being handled by our insurer.

Further, for each of the calendar years 2013, 2014 and 2015, we recorded three, seven and 11 work injuries of our subcontractors' employees, respectively. Two claims in calendar year 2013 and five claims in calendar year 2015 have been settled with a total amount of HK\$146,554.52 and HK\$153,776.80, respectively, and the said amounts were fully settled by our insurer and/or the respective subcontractor. Two claims in calendar year 2014 have been settled with a total amount of HK\$314,290 in which HK\$310,026.67 was settled by our insurer and/or the respective subcontractor and HK\$4,263.33 was settled by us as expenses. The remaining unsettled claims in calendar years 2013, 2014 and 2015 are currently being handled by our insurer.

Pursuant to section 15(1A) of the Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong), notice of any accident which results in the total or partial incapacity of the employee shall be given to the Commissioner for Labour by the employer. All the aforesaid work injuries had been reported to the Commissioner for Labour and were covered by our insurance policies.

BUSINESS

The following table sets out the information of the work injuries of our employees and the employees of our subcontractors from 1 January 2013 to 30 September 2015 (both days inclusive):

For the calendar year 2013

No.	Date of accident	Details of the accident and nature of injuries	Consequence	Last date to commence an employees' compensation claim	Last date to commence a personal injury claim
1.	21 June 2013	An employee of our subcontractor suffered abdomen and back injuries whilst removing the shaft of the boom on the crane.	A 276-day leave was granted to the injured employee. The relevant court action DCEC2226/2014 has been discontinued by the injured employee. The relevant court action HCPI612/2015 is on-going and was taken over and being handled by the insurer.	Not applicable	Not applicable
2.	23 August 2013	An employee of our subcontractor suffered left ring finger injury whilst performing lifting works.	A 123-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	22 August 2016
3.	6 November 2013	An employee of our subcontractor suffered right little finger injury whilst performing installation works.	A 66-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	5 November 2016
4.	16 December 2013	An employee of our Group suffered left shoulder and left wrist injuries whilst approaching her working site.	Leave was granted to the injured employee since 16 December 2013. The relevant court action DCEC2001/2015 is on-going and was taken over and being handled by the insurer.	Not applicable	15 December 2016
5.	30 December 2013	An employee of our Group suffered finger injury whilst performing lifting and carrying works.	A 68-day leave was granted to the injured employee. The relevant court actions DCEC553/2014 and DCPI1795/2014 have been fully settled.	Not applicable	Not applicable

BUSINESS

For the calendar year 2014

No.	Date of accident	Details of the accident and nature of injuries	Consequence	Last date to commence an employees' compensation claim	Last date to commence a personal injury claim
1.	11 March 2014	An employee of our subcontractor suffered leg injury whilst he slipped and fell on the construction site.	A 493-day leave was granted to the injured employee. The injured employee subsequently resigned with immediate effect on 2 October 2015. The incident was taken over and being handled by the insurer.	10 March 2016	10 March 2017
2.	14 April 2014	An employee of our subcontractor suffered right ear injury whilst performing welding works.	A 27.5-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	13 April 2017
3.	22 May 2014	An employee of our subcontractor suffered right chest injury whilst operating a winch.	A 205-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	21 May 2017
4.	10 July 2014	An employee of our subcontractor suffered ankle injury whilst assembling a machinery.	A 16-day leave was granted to the injured employee. The incident was being handled by the insurer.	9 July 2016	9 July 2017
5.	16 September 2014	An employee of our subcontractor suffered left knee injury whilst he was tripped by a cement bag on the ground in the course of work.	Leave was granted to the injured employee since 16 September 2014. The relevant court action DCEC1466/2015 is on-going and was taken over and being handled by the insurer.	Not applicable	15 September 2017
6.	22 September 2014	An employee of our subcontractor suffered chest injury whilst performing steel reinforcing works.	A 55-day leave was granted to the injured employee. The incident was being handled by the insurer.	21 September 2016	21 September 2017
7.	7 October 2014	An employee of our subcontractor suffered left forearm injury whilst he fell from a chair in the course of work.	A 83-day leave was granted to the injured employee. The incident was being handled by the insurer.	6 October 2016	6 October 2017

BUSINESS

For the calendar year 2015

No.	Date of accident	Details of the accident and nature of injuries	Consequence	Last date to commence an employees' compensation claim	Last date to commence a personal injury claim
1.	17 January 2015	An employee of our subcontractor suffered head and forearm injuries whilst performing plastering works.	A 329-day leave was granted to the injured employee. The incident was being handled by the insurer.	16 January 2017	16 January 2018
2.	21 March 2015	An employee of our subcontractor suffered finger injury whilst performing cleaning works.	A 18-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	20 March 2018
3.	13 April 2015	An employee of our subcontractor suffered left foot injury whilst moving an object in the course of work.	A 65-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	12 April 2018
4.	10 June 2015	An employee of our subcontractor suffered right eye injury whilst performing formwork related works.	A 7-day leave was granted to the injured employee. The incident was being handled by the insurer.	9 June 2017	9 June 2018
5.	27 July 2015	An employee of our subcontractor suffered left foot injury whilst performing hoarding sheets related works.	A 32-day leave was granted to the injured employee. The incident was being handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	26 July 2018
6.	6 August 2015	An employee of our subcontractor suffered right elbow injury whilst dismantling the crane.	A 23-day leave was granted to the injured employee. The incident was taken over and handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	5 August 2018
7.	4 September 2015	An employee of our subcontractor suffered chest injury whilst assembling a machinery.	A 40-day leave was granted to the injured employee. The incident was being handled by the insurer.	3 September 2017	3 September 2018

BUSINESS

No.	Date of accident	Details of the accident and nature of injuries	Consequence	Last date to commence an employees' compensation claim	Last date to commence a personal injury claim
8.	10 October 2015	An employee of our subcontractor suffered back injury whilst hit by a metal hook on the construction site.	A 19-day leave was granted to the injured employee. The incident was being handled by the insurer. The employees' compensation claim has subsequently been fully settled after compensation was made to the injured employee.	Not applicable	9 October 2018
9.	9 November 2015	An employee of our subcontractor suffered knee injury upon stepping into a puddle on the construction site.	Leave was granted to the injured employee since 9 November 2015. The incident was being handled by the insurer.	8 November 2017	8 November 2018
10.	20 November 2015	An employee of our subcontractor suffered eye injury whilst working with a pneumatic breaker.	Leave was granted to the injured employee since 20 November 2015. The incident was being handled by the insurer.	19 November 2017	19 November 2018
11.	8 December 2015	An employee of our subcontractor suffered ankle injury whilst climbing down from a ladder to a working platform.	Leave was granted to the injured employee since 10 December 2015. The incident has been reported to the insurer.	7 December 2017	7 December 2018

The following table sets out the comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers of our Group against the relevant construction industry average rates in Hong Kong:

	Construction industry average rate ^(Note 1)	Our Group's rate ^(Note 2)
For the calendar year 2013		
Accident rate per 1,000 workers	40.8	23.26 ^(Note 3)
Fatality rate per 1,000 workers	0.277	—
For the calendar year 2014		
Accident rate per 1,000 workers	41.9	26.68
Fatality rate per 1,000 workers	0.242	—
For the period from 1 January 2015 to 30 November 2015 (both days inclusive)		
Accident rate per 1,000 workers	N/A	16.62
Fatality rate per 1,000 workers	N/A	—

BUSINESS

Notes:

1. The figures are from the Occupational Safety and Health Statistics 2014 (August 2015) by Occupational Safety and Health Branch, Labour Department.
2. Our Group’s injury rate is calculated with reference to the definition of injury rate under the Occupational Safety and Health Statistics 2014 (August 2015) by Occupational Safety and Health Branch, Labour Department, which is the number of work injuries resulting in total or partial incapacity of employees of our Group and our subcontractors, divided by the monthly average number of construction site employees, during a calendar year. The monthly average number of construction site workers includes employees of our Group and our subcontractors and is determined by the construction site attendance reports we have uploaded to the registrar of construction workers pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong).
3. We did not keep in our possession the construction site attendance reports for the period from January 2013 to July 2013 we have uploaded to the registrar of construction workers pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the laws of Hong Kong). As such, solely for the purposes of illustration and calculation of accident rate per 1,000 workers for the calendar year 2013, the monthly average number of construction site workers from January 2013 to July 2013 is taken to be the monthly average number of construction site workers from August 2013 to December 2013.

For each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 November 2015 (both days inclusive), we recorded no fatal injuries for our projects and so the fatality rates of our projects were lower than the construction industry average rates in Hong Kong.

A table showing our Group’s lost time injuries frequency rates (“**LTIFRs**”) is set out below:

For the calendar year 2013	8.59
For the calendar year 2014	9.84
For the period from 1 January 2015 to 30 November 2015 (both days inclusive)	6.13

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries (“**LTIs**”) occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR is calculated as multiplying the number of lost time injuries of our Group happened in the calendar year by 1,000,000 and then dividing by the number of hours worked by the workers over that calendar year.
2. The number of working days of construction site workers for each of the calendar years 2013 and 2014, and the period from 1 January 2015 to 30 November 2015 (both days inclusive) were approximately 301 days, 300 days and 301 days respectively. It is assumed that the working hour of each worker is nine hours per day.

Occupational health and safety measures

Accident prevention in work place is our focus. To fulfil the relevant statutory safety and health requirements, we maintain a safety management system, with particulars as follows:

Safety organisations

We have established a safety management committee, chaired by our executive Director, which is responsible for monitoring and reviewing our safety performance, ensuring the implementation of our safety manual, and seeking the co-operation and commitment of staff at all levels. It holds meeting quarterly to review the safety measures.

We have established a site safety committee, which comprises of project manager, registered safety officer, safety supervisor, foreman, subcontractors and employees’ representatives, for each construction site to implement our safety plan, review and monitor the effectiveness of our safety and health measures taken and seek the co-operation and commitment of staff at all levels.

BUSINESS

We have also engaged an external safety consultant, an Independent Third Party, to conduct independent safety audit for us.

Safety manual

Safety manual is prepared and update annually by our safety department. Our site safety committee will review safety rules and issue new rules or procedures to cope with changes in policies, processes, procedure, and method statement. All safety rules and regulations must be distributed to the concerned workers. Specific safety rules of hazardous activities must be posted in the nearby area or operation such as welding, lifting operation, woodworking, etc.

Safety training

Each of our construction site workers including workers of our subcontractors has to hold a valid construction industry safety training certificate (commonly named as "Green Card"), Hong Kong identity card and construction workers registration card before he/she enters the construction site.

We, as the main contractor, provide training to all new staff and workers (including those of the subcontractors), including the content of (i) safety policy; (ii) safety knowledge and site safety practice; (iii) duty of employers and employees; (iv) safety personnel at construction site; (v) safety rules for fire and lifting; (vi) personal protective equipment; (vii) safety organization and committee; (viii) action in case of emergency and reporting of unsafe act; and (ix) environmental protection. Workers will also receive toolbox talks conducted by the respective front line supervisors and registered safety officers.

Inspection of hazardous conditions

Regular weekly site safety inspections will be carried out to identify defects, unsafe conditions and practices, and breaches of statutory or safety plan requirements.

Our registered safety officer shall prepare a monthly report. All the items shall be discussed in site safety committee meeting. Follow-up actions, if any, shall be completed foreman.

The following sets forth the general safety rules for foreseeable hazardous conditions:

- Safety helmet must be worn at all times.
- Safety harness must be used when working at height.
- Alcoholic drinking on construction site and smoking outside the designed smoking area in working hours are prohibited.
- Scaffold working platform must be secured.
- Safety installation must not be interfered with.
- Electrical tools must be connected to earth, except double insulation type.
- Falling objects are strictly prohibited.
- Be careful while at work with operating machine.
- Safety equipment must be used.

BUSINESS

- Any unsafe condition to site management must be immediately reported.

Machinery maintenance

For each item of machinery used in the construction site, testing is carried out before putting into service to ensure the condition of the same meeting the safety criteria. Our safety supervisor will maintain an updated list of machinery in the construction site to ensure regular maintenance of the same is carried out. Our safety supervisor is also responsible to check that the machinery is operating in accordance with the relevant method statements and safety measures.

Safety promotion

Safety posters issued by the Labour Department and Occupational Safety and Health Council are also displayed so as to enhance the safety awareness of all construction site workers.

Accident investigation

Any work accident occurred shall be investigated by the immediate supervisor of the injured person and the safety supervisor immediately after the work accident.

Recommendation on safety precautionary measures to prevent the recurrence of such work accident should be prepared by registered safety officer and be discussed in site safety committee meeting with all subcontractors for prevention of any recurrence.

Environmental protection

Our registered safety officers would carry out regular noise level surveys on areas surrounding the construction sites or activities suspected of generating excessive noise levels.

We would devise, arrange methods of working and carry out works in such a manner so as to minimise impacts on surrounding environment.

Evaluation, selection and control of our subcontractors

During the process of assessing tenders from our subcontractors, we evaluate and review the safety history of the subcontractors for reference. We also generally include our safety requirements in our subcontractor agreements together with a deduction mechanism on subcontractors' payment for any infringement of our safety requirements.

Our registered safety officers monitor and review the safety performance of our subcontractors on a monthly basis, record the results and report to our safety management committee in special circumstances where the performance of the subcontractor is considered as poor.

View of our Directors and the Sponsor

Our Directors are of the view and the Sponsor concurs that the work safety measures implemented by us are sufficient and effective based on the followings:

- it is required under the Factories and Industrial Undertakings (Safety Management) Regulation (Cap. 59AF) for a contractor to appoint a registered safety auditor to conduct a safety audit not less than once in each 6 months for industrial undertaking involving construction work, and a safety audit report needs to be submitted to the Labour Department;

BUSINESS

- the corporate safety audit report based on an audit conducted on 25 July 2015 concluded that the overall safety management performance of Ching Lee Engineering to be satisfactory;
- the Sponsor has interviewed the independent registered safety auditor on 3 February 2016 and based on previous audit reviews of Ching Lee Engineering, the work safety measures was considered to be sufficient and effective; and
- during the Track Record Period, our accident rate is below the industry average.

LEGAL PROCEEDINGS AND LEGAL COMPLIANCE

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and penalties which may arise as a result of any work injuries, outstanding litigations (including criminal litigations), claims, and non-compliances of our Group on or before the date on which the [REDACTED] becomes unconditional. Further details of the Deed of Indemnity are set out in the paragraph headed “E. Other information — Tax and other indemnities” in Appendix V to this document.

Legal proceedings

As at the Latest Practicable Date and save as disclosed in this paragraph, no member of our Group was engaged in any litigation, claim or arbitration of material importance, and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

Civil litigations as at the Latest Practicable Date

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/estimated quantum of damages claimed	Status
<p>1. An employee of a subcontractor of Ching Lee Engineering suffered abdomen and back injuries whilst he was removing the shaft of the boom on the crane in the course of work.</p> <p>The injured individual has (i) made an application under the Employees’ Compensation Ordinance (the “First Claim”); and (ii) filed a personal injury claim (the “Second Claim”).</p>	21 June 2013	The injured individual	The subcontractor of Ching Lee Engineering, an Independent Third Party as 1st respondent; Ching Lee Engineering as 2nd respondent.	<p>(i) Compensation under sections 9, 10 and 10A of the Employees’ Compensation Ordinance, plus interests and costs claimed.</p> <p>(ii) To be assessed by the court for the Second Claim.</p>	<p>(i) The First Claim was discontinued.</p> <p>(ii) The insurer has taken over conduct of the Second Claim.</p>
<p>2. An employee of Ching Lee Engineering suffered left shoulder and left wrist injuries whilst approaching her working site in the course of work.</p> <p>The injured employee has made a claim under the Employees’ Compensation Ordinance.</p>	16 December 2013	The injured employee	Ching Lee Engineering	Compensation under sections 9, 10 and 10A of the Employees’ Compensation Ordinance, plus interests and costs claimed.	The insurer has taken over conduct of the proceedings.

BUSINESS

Nature of the claims	Date of the incident	Plaintiff(s)/ Applicant(s)	Defendant(s)/ Respondent(s)	Amount/estimated quantum of damages claimed	Status
3. An employee of a subcontractor of Ching Lee Engineering suffered left knee injury whilst he was tripped by a cement bag on the ground in the course of work. The injured individual has made a claim under the Employees’ Compensation Ordinance.	16 September 2014	The injured individual	The subcontractor of Ching Lee Engineering, an Independent Third Party as 1st respondent; Ching Lee Engineering as 2nd respondent.	Compensation under sections 9, 10 and 10A of the Employees’ Compensation Ordinance, plus interests and costs claimed.	The insurer has taken over conduct of the proceedings.

Criminal litigations as at the Latest Practicable Date

Nature of the charge	Date(s) of the incident	Defendant	Status
1. Ching Lee Engineering was charged for, being a registered specialist contract (site formation works) directly concerned with the building works, namely, excavation and lateral support works at a construction site, carried out such building works in such manner as was likely to cause a risk of injury to persons or damage to property contrary to section 40(2B)(b) of the Buildings Ordinance.	Between 6 November 2014 and 17 November 2014 (both dates inclusive)	Ching Lee Engineering	<p>The court hearing held on 7 January 2016 was the first mention hearing and the Magistrate ordered the next hearing to be fixed on 31 March 2016. On 31 March 2016, pre-trial review will be fixed if appropriate. Trial dates will be fixed at the pre-trial review.</p> <p>As advised by our legal advisers as to the Buildings Ordinance matters, as the case is still at its early stage, they are unable to advise on the merits of the case or the chance of Ching Lee Engineering’s acquittal with any degree of certainty at this stage and it is difficult at this stage to estimate the possible outflow of economic benefits.</p> <p>As advised by our legal advisers as to the Buildings Ordinance matters, the maximum penalty upon conviction is a fine of HK\$1,000,000 and imprisonment for three years.</p> <p>According to the experience of our legal advisers as to the Buildings Ordinance matters and the case law, they have not come across any case in which the maximum penalty was imposed for offences committed under the Buildings Ordinance. Our legal advisers as to the Buildings Ordinance matters are of the view that it is not likely that the maximum fine will be imposed or any sentence of imprisonment would be ordered against the director or officers of Ching Lee Engineering having regard to the nature of the present charge.</p>

Besides the civil litigations set out above, the injured individuals may commence their claims under the Employees’ Compensation Ordinance and/or their personal injuries claims under common law within the limitation period of two years (for employees’ compensation claims) or three years (for personal injury claims) from the date of the relevant incidents. For details of the expiry dates of limitation period of our work injury cases, please refer to the paragraph headed “Business — Work safety” in this document. As these potential claims have not yet been filed, we are not in a position to

BUSINESS

assess the likely amount of such potential claims. Our Directors confirm that our Group has insurance coverage for its liabilities resulting from all these incidents and notices of such incidents have been given to the insurers as at the Latest Practicable Date and therefore are of the view that such claims as disclosed above have no material adverse impact on the operation or financial position or business of our Group. These cases were caused during usual and ordinary course of our business and have not caused disruption to our Group's business or have an adverse impact on our Group to obtain any licenses or permits for our operation.

Ching Lee Engineering is a registered specialist contractor in the sub-registers of foundation works and site formation works and a registered general building contractor with the Buildings Department. For renewal of registration as a registered general building contractor and as registered specialist contractor under the respective sub-registers of site formation works and foundation works (the "**Registrations**"), the Building Authority will consider, among other things, if the contractor has been convicted or disciplined under the Buildings Ordinance, or has been convicted of a serious labour safety offence (such as involving a fatal accident or amputation of limb), or has been convicted of seven or more labour safety offences committed within a rolling six months, or has been involved in conviction leading to imprisonment for malpractice or misconduct in building works or construction related activities. The contractor is also required to submit declarations covering exhaustively any conviction, disciplinary and/or suspension records of itself, the authorised signatory and the technical director for a prescribed period in its application for renewal.

In the event that Ching Lee Engineering is convicted under the Buildings Ordinance, the Building Authority may refer Ching Lee Engineering's future application for renewal of Registrations to the Contractors Registration Committees for interview and assessment.

Ching Lee Engineering is also included in the list of approved suppliers of materials and specialist contractors for public works under the category of repair and restoration of historic buildings maintained by the Works Branch of the Development Bureau. Ching Lee Engineering's retention on such approved list (the "**Retention**") could be affected by, among other things, whether the Development Bureau has taken regulatory actions against the contractor, who has, caused or contributed to the occurrence of a serious accident on a construction site, been convicted of five or more site safety offences in any six month period or been convicted of five or more environmental offences in any six month period (the "**Regulatory Actions**"). The Regulatory Actions include removal, suspension (which means a contractor is prohibited from tendering for works of the relevant category during the suspension period), downgrading (which includes downgrading or demoting the contractor's qualification to a lower status or class in all or any specified category), depending on the seriousness of the incident.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, (i) Ching Lee Engineering had not been convicted or disciplined under the Buildings Ordinance or reprimanded by the Works Branch of the Development Bureau; (ii) as advised by the Company's legal adviser as to the Building Ordinance matters, although the maximum penalty under the Buildings Ordinance upon conviction is a fine of HK\$1,000,000 and imprisonment for three years, based on their experience and case law, they had not come across any case in which the maximum penalty was imposed for offences committed under the Buildings Ordinance and it is not likely that the maximum fine will be imposed on or any sentence of imprisonment would be ordered against the director or officers of Ching Lee Engineering having regard to the nature of the case; (iii) Ching Lee Engineering had not been convicted of a serious labour safety offence (such as involving a fatal accident or amputation of limb); (iv) Ching Lee Engineering had not been convicted of seven or more labour safety offences within a rolling six months; (v) Ching Lee Engineering has not been involved in conviction leading to imprisonment for malpractice or misconduct in building works or construction related activities; (vi) the estimated total amount of likely fines to be paid by Ching Lee Engineering in relation to the aforesaid charges upon conviction is considered insignificant to our business; (vii) Ching Lee Engineering had not caused or contributed to the occurrence of a serious accident on a construction site; (viii) Ching Lee Engineering had not been convicted of five or more site safety offences in any six

BUSINESS

month period and (ix) Ching Lee Engineering had not been convicted of five or more environmental offences in any six month period. As such, subject to the assessment and administrative decision of the Contractors Registration Committees, Stevenson, Wong & Co. (the Hong Kong legal advisers to our Company) are of the view that having regard to and based on, among others, the Directors' confirmations, the opinion of the Company's legal adviser as to the Buildings Ordinance matters and that the conviction of Ching Lee Engineering with section 40(2B)(b) of the Buildings Ordinance and regulation 38B(1) of the Construction Sites (Safety) Regulations (the "**Offences**") does not fall within the ambit where the Development Bureau will consider taking regulating actions against a contractor due to its court convictions according to the Technical Circular (Works) No. 3/2009 — "Regulating Action against Contractors for Occurrence of a Serious Incident or Conviction for Site Safety or Environmental Offences" issued by the Development Bureau, it is not likely that the criminal litigations in relation to the Offences, if convicted against Ching Lee Engineering, would materially and adversely affect Ching Lee Engineering's renewal and maintenance of the Registrations and the Retention.

BUSINESS

Legal compliance

Our Directors confirm that save as disclosed below under this paragraph, we have complied with all applicable laws and regulations in all material respects in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

Non-compliance with the Construction Industry Council Ordinance

Set out below are non-compliances of our Group with the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) (“CICO”):

Relevant section of ordinance	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial action	Estimate/actual fine/penalty
Sections 35 and 36 of the CICO	<p>Under sections 35 and 36 of the CICO, we have the duty to file to the Construction Industry Council (i) a notice of payment within a prescribed time limit after we receive a payment in respect of the construction operation; and (ii) a notice of completion within a prescribed time limit after the completion of the construction project. The purpose of filing the notice of payment and notice of completion is to facilitate the Construction Industry Council to assess the amount of construction industry levy payable by us under Schedule 5 of the CICO.</p> <p>There are 15 projects that are on-going or were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of payment within the prescribed time limits.</p> <p>There are 7 projects that were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of completion.</p> <p>We also had incidents of failure to file the notices of payment and/or notices of completion within the prescribed time limits for projects that were completed before two years before the Latest Practicable Date.</p>	<p>The breach was not wilful and was due to the inadvertent oversight of our administrative staff.</p>	<p>On 17 December 2015, we filed the relevant notices of payment and notices of completion to the Construction Industry Council for projects that are on-going or were completed within two years before the Latest Practicable Date.</p> <p>We will make timely payment of the construction industry levy and surcharge when the Construction Industry Council issued the provisional or final assessment after considering the filed notices of payment and notices of completion.</p>	<p>Under sections 35 and 36 of the CICO, the maximum fine for each offence is HK\$10,000. Further, the construction industry levy and surcharge is recoverable by the Construction Industry Council as civil debt under section 47 of the CICO.</p> <p>As advised by the Legal Counsel, the time limits for the Construction Industry Council to make assessment or impose the surcharge are, whichever is the last of (a) two years after the completion of the construction; (b) two years after the expiry of the period within which the contract stipulates that the construction has to be completed; and (c) one year after evidence comes to the knowledge of Construction Industry Council for it to make the assessment. As such, for projects that were completed before two years before the Latest Practicable Date, our Directors confirm that we had filed the notices of commencement such that Construction Industry Council had knowledge about these projects, therefore the risk of liability of payment of construction industry levy and surcharge is minimal, and the risk of fixed fine is also slight.</p> <p>As advised by the Legal Counsel, for projects that are on-going or were completed within two years before the Latest Practicable Date, since the Legal Counsel is not aware that any departmental summons has been issued in the past by the Construction Industry Council in relation to violations of sections 35 and 36 of the CICO, the Legal Counsel is of the view that the risk for fixed fine and surcharge is remote.</p> <p>For projects that are on-going or were completed within two years before the Latest Practicable Date, we have made provision for the levy expected to be paid by us at approximately HK\$3,016,000 as at 30 September 2015.</p>

BUSINESS

Non-compliance with the Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations

Set out below are non-compliances of our Group with the Pneumoconiosis and Mesothelioma (Compensation) Ordinance (Chapter 360 of the Laws of Hong Kong) (“**PMCO**”) and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations (Chapter 360A of the Laws of Hong Kong) (“**PMCALR**”):

Relevant section of ordinance	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial action	Estimate/actual fine/penalty
Regulations 5 and 5A of the PMCALR	<p>Under regulations 5 and 6 of the PMCALR, we have the duty to file to the Pneumoconiosis Compensation Fund Board (i) a notice of payment within a prescribed time limit after we receive a payment in respect of the construction operation; and (ii) a notice of completion within a prescribed time limit after the completion of the construction project. The purpose of filing the notice of payment and notice of completion is to facilitate the Pneumoconiosis Compensation Fund Board to assess the amount of pneumoconiosis compensation fund levy payable by us under Schedule 5 of the PMCO.</p> <p>There are 14 projects that are on-going or were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of payment within the prescribed time limits.</p> <p>There are 6 projects that were completed within two years before the Latest Practicable Date, in respect of which we have failed to file the notices of completion.</p> <p>We had incidents of failure to file the notices of payment and/or notices of completion within the prescribed time limits for projects that were completed before two years before the Latest Practicable Date.</p>	<p>The breach was not wilful and was due to the inadvertent oversight of our administrative staff.</p>	<p>On 17 December 2015, we filed the relevant notices of payment and notices of completion to the Pneumoconiosis Compensation Fund Board for projects that are on-going or were completed within two years before the Latest Practicable Date.</p> <p>We will make timely payment of the pneumoconiosis compensation fund levy and surcharge when the Pneumoconiosis Compensation Fund Board issued the relevant notices of assessment after considering the filed notices of payment and notices of completion.</p>	<p>Under regulations 5 and 6 of the PMCALR, the maximum fine for each offence is HK\$5,000. Further, the pneumoconiosis compensation fund levy and surcharge is recoverable by the Pneumoconiosis Compensation Fund Board as civil debt under section 38 of the PMCO.</p> <p>As advised by the Legal Counsel, the time limits for the Pneumoconiosis Compensation Fund Board to make assessment or impose the surcharge are, whichever is the last of (a) two years after the completion of the construction; (b) two years after the expiry of the period within which the contract stipulates that the construction has to be completed; and (c) one year after evidence comes to the knowledge of Pneumoconiosis Compensation Fund Board for it to make the assessment. As such, for projects that were completed before two years before the Latest Practicable Date, our Directors confirm that we had filed the notices of commencement such that Pneumoconiosis Compensation Fund Board had knowledge about these projects, therefore the risk of liability of payment of pneumoconiosis compensation fund levy and surcharge is minimal, and the risk of fixed fine is also slight.</p> <p>As advised by the Legal Counsel, for projects that are on-going or were completed within two years before the Latest Practicable Date, since the Legal Counsel is not aware that any departmental summons has been issued in the past by the Pneumoconiosis Compensation Fund Board in relation to violations of regulations 5 and 5A of the PMCALR, the Legal Counsel is of the view that the risk for fixed fine and surcharge is remote.</p> <p>For projects that are on-going or were completed within two years before the Latest Practicable Date, we have made provision for the levy expected to be paid by us at approximately HK\$252,000 as at 30 September 2015.</p>

BUSINESS

Non-compliance with the Predecessor Companies Ordinance and Companies Ordinance

Our Directors confirm that they were aware of the occurrence of certain non-compliances of our Group with the Predecessor Companies Ordinance in respect of matters including among others, timely adoption of audited accounts, failure to convene annual general meetings within the prescribed time and late filing of various forms of notice. As advised by the Legal Counsel, those non-compliance incidents not disclosed below are time barred by the time limit for prosecution of three years under both Predecessor Companies Ordinance and Companies Ordinance. Taking into account the above and the fact that any loss, fee, expense and penalty of our Group in relation to non-compliance matters will be fully indemnified by our Controlling Shareholders, our Directors consider that the impact of them would be immaterial upon our Group. Save as the aforesaid, set out below are non-compliance of the members of our Group with the Predecessor Companies Ordinance and Companies Ordinance, which was not time barred as at the Latest Practicable Date:

Relevant section of the ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action	Estimated/actual fine/penalty
Sections 111 and 122 of the Predecessor Companies Ordinance	Ching Lee Construction had failed to lay its profit and loss accounts and balance sheets at its respective annual general meetings for 2012, 2013 and 2014 within the prescribed time limit.	The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.	The audited accounts were laid or will be laid before the annual general meetings subsequently held or to be held.	Contrary to section 111 of the Predecessor Companies Ordinance or section 610 of the Companies Ordinance, the relevant company and every officer or responsible person who is in default shall be liable to a fine of HK\$50,000.
Sections 610 and 429 of the Companies Ordinance	Ching Lee Engineering had failed to hold its annual general meeting for 2013 within the prescribed time limit.			Contrary to section 122 of the Predecessor Companies Ordinance or section 429 of the Companies Ordinance, the maximum penalty in respect of each offence is a fine of HK\$300,000 and 12 months' imprisonment.
	Ching Lee Foundation had failed to lay its profit and loss accounts and balance sheets at its respective annual general meetings for 2012, 2013 and 2014 within the prescribed time limit.			As advised by the Legal Counsel, pursuant to case law and with consideration of the nature and reason of the breach, the Legal Counsel is of the view that even if there is any prosecution, the chance of an imprisonment sentence being imposed is remote.
	Ching Lee Foundation had failed to hold its annual general meeting for 2014 within the prescribed time limit.			

BUSINESS

Relevant section of the ordinance	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action	Estimated/actual fine/penalty
Section 645 of the Companies Ordinance and section 158 of the Predecessor Companies Ordinance	<p>Ching Lee Engineering had failed to inform the Companies Registry of the change of address of its officers within the prescribed time limit in 2000.</p> <p>Ching Lee Construction had failed to inform the Companies Registry of the change of address of its officers within the prescribed time limit in 2011 and 2013.</p>	The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.	The relevant forms had been filed and will be filed.	<p>Under the Predecessor Companies Ordinance, the relevant company and every officer who was in default shall be liable to a maximum principle fine of HK\$10,000 and a maximum daily default fine of HK\$300. Under the Companies Ordinance, the penalties are increased to HK\$25,000 for the maximum principle fine and HK\$700 for the maximum daily default fine.</p> <p>As advised by the Legal Counsel, the Legal Counsel is not aware of any prosecution in relation to such non-compliance and with consideration of the nature and reason of the breach, the Legal Counsel is of the view that the chance of prosecution is remote.</p>
Section 658 of the Companies Ordinance and section 92 of the Predecessor Companies Ordinance	Ching Lee Construction had failed to inform the Companies Registry of the change of its registered office within the prescribed time limit in 2009.	The omission was due to the inadvertent oversight of our staff responsible for supervision on secretarial matters.	The relevant forms had been filed.	<p>Under the Predecessor Companies Ordinance, the relevant company and every officer of the company who is in default shall be liable to a maximum principle fine of HK\$10,000 and, for continued default, to a maximum daily fine of HK\$300.</p> <p>Under the Companies Ordinance, the relevant company and every responsible person of the company, is liable to a fine at HK\$50,000, and in the case of a continuing offence, to a further fine of \$1,000 for each day during which the offence continues.</p> <p>As advised by the Legal Counsel, the Legal Counsel is not aware of any prosecution in relation to such non-compliance and with consideration of the nature and reason of the breach, the Legal Counsel is of the view that the chance of prosecution is remote.</p>
Section 417 of the Companies Ordinance	The previous auditors of each member of the Group resigned in 2015 because BDO Limited was retained as replacement to be the auditor and reporting accountant for the purpose of the [REDACTED]. Each member of the Group incorporated in Hong Kong had failed to file the notification of resignation of auditor in 2015.			<p>Under the Companies Ordinance, the relevant company and every responsible person of the company, is liable to a fine at HK\$50,000 and to imprisonment for six months and, in the case of a continuing offence, to a further fine of \$1,000 for each day during which the offence continues.</p> <p>As advised by the Legal Counsel, the Legal Counsel is not aware of any prosecution in relation to such non-compliance and with consideration of the nature and reason of the breach the Legal Counsel is of the view that the chance of prosecution is remote.</p>

BUSINESS

INTERNAL CONTROL MEASURES

Our Controlling Shareholders [have entered] into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities which may arise as a result of any non-compliances by our Group on or before the date on which the [REDACTED] becomes unconditional and dealings in shares of our Company first commence on the Stock Exchange. Further details of the Deed of Indemnity are set out in the section headed “E. Other information — 1. Tax and other indemnities” in Appendix V to this document.

We have implemented the following internal control measures to prevent the recurrence of non-compliance incidents.

Internal control measures to prevent the recurrence of non-compliance incidents

In order to continuously improve our Group’s corporate governance and to prevent recurrence of the abovementioned non-compliances in the future, our Group has, after taking into account the recommendations made by Baker Tilly Hong Kong Risk Assurance Limited (“**Baker Tilly**”), an independent internal control adviser engaged by us as disclosed in the paragraph headed “Review by Baker Tilly” below, adopted or will adopt the following measures:

Construction Industry Council Ordinance related compliance requirements

We have clearly set out in a manual all internal procedures for timely filing of relevant forms of notices and payment of levy to the Construction Industry Council. Our project managers will (i) ensure that the relevant forms of notices are filed to the Construction Industry Council within their prescribed timelines; (ii) upon receiving notice of assessment from the Construction Industry Council, notify our accounting and finance department to arrange for levy payment; (iii) create and update a register of levy payment for each project; and (iv) record the progress of each project (including date of commencement and completion, date and amount of payment received) and the status of notice and form.

The Company has assigned the Compliance Officer to carry out procedures of review and double-check on a monthly basis to ensure that the filing register is updated properly and that all forms of notices are filed with the relevant authorities as well as payment of levies are made on a timely basis.

Pneumoconiosis and Mesothelioma (Compensation) Ordinance and Pneumoconiosis and Mesothelioma (Compensation) (Assessment of Levy) Regulations related compliance requirements

We have clearly set out in a manual all internal procedures for timely filing of relevant forms of notices and payment of levy to the Pneumoconiosis Compensation Fund Board. Our project managers will (i) ensure that the relevant forms of notices are filed to the Pneumoconiosis Compensation Fund Board within their prescribed timelines; (ii) upon receiving notice of assessment from the Pneumoconiosis Compensation Fund Board, notify our accounting and finance department to arrange for levy payment; (iii) create and update a register of levy payment for each project; and (iv) record the progress of each project (including date of commencement and completion, date and amount of payment received) and the status of notice and form.

The Company has assigned the Compliance Officer to carry out procedures of review and double-check on a monthly basis to ensure that the filing register is updated properly and that all forms of notices are filed with the relevant authorities as well as payment of levies are made on a timely basis.

BUSINESS

Companies Ordinance and Predecessor Companies Ordinance related compliance requirements

Our company secretary, Mr. Chan Ming Hang, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants (for more of his information, please refer to the paragraph headed “Directors, senior management and staff — Company secretary”), will be responsible for keeping the filing register up to date from time to time and as required by the relevant Hong Kong laws and regulations and we will seek legal advice from external legal advisers to ensure on-going compliance.

The Company has also assigned the Compliance Officer to carry out procedures of review and double-check on a monthly basis to ensure that the filing register is updated properly and that all notices and returns are properly filed with the Companies Registry in a timely manner, and all shareholders’ meetings are properly held with the required documents laid before the meetings.

Post-[REDACTED] compliance requirements

- on 11 and 14 December 2015, our Directors attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- on 13 January 2016, we have engaged Kingsway Capital Limited as our compliance adviser upon [REDACTED] to advise us on compliance matters under the GEM Listing Rules;
- on 13 January 2016, we have engaged Baker Tilly to conduct an internal control follow-up review for our Group after [REDACTED] to assess the adequacy and effectiveness of our internal control system, including areas of financial, operational and compliance; and
- on 10 March 2016, we established an audit committee which comprises all independent non-executive Directors, namely Dr. Wai Wing Hong Onyx, Mr. Tong Hin Sum Paul and Mr. Chau Kam Wing Donald. The audit committee has adopted its terms of reference which sets out clearly its duties and obligations to, among other things, overseeing the internal control procedures and accounting and financial reporting matter of our Group, and ensuring compliance with the relevant laws and regulations.

Review by Baker Tilly

In preparation for the [REDACTED], we engaged Baker Tilly to perform a detailed evaluation of the adequacy and effectiveness of our Group’s internal control system including the areas of financial, operation, compliance and risk management. The review was carried out from 19 October 2015 to 30 October 2015 and the testing period was from 1 October 2014 to 30 September 2015. Following such review and evaluation performed by Baker Tilly, our Group has implemented all of the recommendations given by Baker Tilly on our internal control system.

In relation to the non-compliance incidents mentioned above, Baker Tilly has reviewed and provided recommendations to our internal control designs for preventing the recurrence of the above-mentioned non-compliance incidents. Key measures adopted and to be adopted by our Group pursuant to the recommendations of Baker Tilly are set out in the paragraph headed “Internal control measures — Internal control measures to prevent the recurrence of non-compliance incidents” in this section.

Baker Tilly performed a follow up review in this connection from 25 November 2015 to 27 November 2015 and the testing period was from 6 November 2015 to 23 November 2015. The result of the follow up review did not note any statement of findings of material weakness or material insufficiency in our Group’s internal control system.

BUSINESS

Save as the non-compliance incidents with CICO mentioned above on page 131, there is an internal control deficiency with a risk level of medium or above identified by Baker Tilly as follows:

Findings	Recommendations	Status of implementation
It is noted in five individual incidents that quotation or tender for purchasing of materials or engaging subcontractor was only obtained from one supplier or subcontractor and the total amount involved in all five incidents was approximately HK\$8,375,898. Baker Tilly is of the view that such practice would not enable our Group to enjoy the advantages of competitive tendering in terms of market competitive prices.	It is recommended that (i) the responsible personnel of our Group should obtain quotations or tenders from more than one supplier or subcontractor for each purchase or engagement; (ii) all the supporting documents, including both successful and unsuccessful quotations or tenders, should be properly filed for future reference; and (iii) quotations or tenders from different suppliers or subcontractors should be properly analysed, reviewed and approved in writing by the designated responsible personnel.	At the follow up review, it is noted that recommendations given by Baker Tilly have been implemented. In particular, at least two competitive quotations or tenders are obtained for purchasing of materials or engaging subcontractor and both successful and unsuccessful quotations or tenders are properly filed for future reference.

View of our Directors and the Sponsor

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rules 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 having taken into account that (i) our Group has fully rectified all of the non-compliance incidents, where appropriate; (ii) our Group has implemented (or will implement where applicable) the measures described above to avoid recurrence of the non-compliance incidents; (iii) there were no recurrence of similar non-compliance incidents since the implementation of such measures; (iv) the non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our executive Directors; and (v) the executive Directors’ commitment to implement changes demonstrates that their integrity is not at risk. In view of the above, our Directors believe, and the Sponsor concurs that, the internal control measures are sufficient and could effectively ensure a proper internal control system of our Group and prevent the recurrence of non-compliance incident.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered one trademark in Hong Kong and four domain name(s) in Hong Kong, which is/are being used or intended to be used by our Group.

As at the Latest Practicable Date, we have not received any material claim against us for infringement of any trademark nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

Please refer to the paragraph headed “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this document for further details of the registration of our trademarks and domain names.