

## BUSINESS

---

### OVERVIEW

We are a building maintenance and renovation service provider in Hong Kong. According to the Ipsos Report, we ranked sixth among building maintenance and renovation service providers in Hong Kong in terms of the total industry revenue for the twelve months ended 31 December 2013. Our Group is a “Group M2 (confirmed status)” building contractors for maintenance works category granted by the Housing Authority since February 1996. We are eligible to submit tenders for Housing Authority contracts for building maintenance and renovation works for unlimited value. We have also been admitted by the Housing Authority as a Quality Maintenance Contractor since 2001 and have enjoyed more tendering opportunities for the Housing Authority’s maintenance and renovation works contracts. As a Quality Maintenance Contractor, we are well positioned to capture DTCs opportunities which enable us to maximise our revenue and profitability. We are one of the major contractors providing large-scale maintenance, improvement and vacant flat refurbishment for public housing estates, public facilities and other public properties in Hong Kong pursuant to the DTCs awarded by the Housing Authority. According to the Ipsos Report, our Group ranked third among building maintenance and renovation service providers within the DTC market in Hong Kong in terms of the total revenue in the DTC market for the twelve months ended 31 December 2013.

Our role as a main contractor 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. We have established ourselves as a well-recognised main contractor in a variety of building maintenance and renovation projects in both the public and private sectors. Our services cover maintenance, improvement and vacant flat refurbishment for public housing estates, public facilities and other public properties in Hong Kong, maintenance and renovation works for private residential buildings (including luxury and high-end residential buildings and large-scale community residential estates) and non-residential buildings (including hotels, hostels, shopping malls, industrial buildings and schools). Leveraging on the diverse nature of our services, we have accumulated more than 20 years of experience in building maintenance and renovation works as a main contractor and are flexible in deploying resources to maintain an appropriate mix of our services in order to meet our customers’ demand. During the Track Record Period, we derived approximately 68.9%, 68.8% and 66.9% of our revenue from carrying out building maintenance services for the three financial years ended 30 June 2014, respectively. Approximately 31.1%, 31.2% and 33.1% of our revenue was derived from provision of renovation services for the three financial years ended 30 June 2014 respectively.

Our major customers include the Government, property management companies, incorporated owners of private residential properties, universities, education institutions, charitable organisations and other customers in the private sector. The Housing Authority was the largest customer of our Group for the three financial years ended 30 June 2014 accounting for approximately 61.7%, 60.1% and 60.8% of our total revenue respectively. During the Track Record Period, revenue derived from our five largest customers amounted to approximately 98.1%, 98.4% and 95.7%, respectively, of our total revenue. We have

## BUSINESS

---

maintained a stable relationship with our major customers. Our five largest customers (in terms of revenue) during the Track Record Period have maintained business relationship with us for a period ranging from 1 to 25 years.

For all of our contracts, we act as the main contractor and delegate works to our subcontractors under close supervision of and management by our project management team. During the Track Record Period, our Group’s subcontracting fees amounted to approximately HK\$545.5 million, HK\$529.2 million and HK\$514.9 million, respectively, representing approximately 96.2%, 95.3% and 94.5% of our Group’s total costs of services, respectively. During the same period, our Group’s largest subcontractor accounted for approximately 26.1%, 18.8% and 26.3% of our Group’s total cost of services respectively and our Group’s five largest subcontractors accounted for approximately 75.2%, 61.8% and 61.4% of our Group’s total cost of services respectively. Our five largest subcontractors (in terms of cost of services) during the Track Record Period have maintained business relationship with us for a period ranging from 2 years to 12 years.

We also implement procedures for maintaining a high standard of occupational health, safety, environment and quality control. We have received a certificate of achievement from HKQAA for our integrated management system’s current compliance with ISO 9001:2008 (quality management), ISO 14001:2004 (environmental management) and OHSAS 18001:2007 (occupational health and safety management) standards. Our commitment to maintaining an effective occupational health, safety and environmental management system enables our Group to constantly meet the requirements of our customers who take compliance of workplace safety and environmental compliance very seriously as assessment criteria for their service providers.

According to the Ipsos Report, there is much growth potential in the building maintenance and renovation contracting service industry in Hong Kong. There are various subsidies and assistance schemes provided by the Government to support property owners who wish to undertake building rehabilitation. Such schemes include Mandatory Building Inspection Scheme, Mandatory Window Inspection Scheme, Mandatory Building Inspection Subsidy Scheme, the Integrated Building Maintenance Assistance Scheme and the Operation Building Bright project. These schemes will facilitate the demand for building maintenance and renovation contracting services as property owners would be more driven to undertake building rehabilitation with the subsidies and support from the Government. In addition, our Directors believe that demand for building maintenance and renovation contracting services will further be driven by urban renewal projects, stricter government enforcement on building safety and increase in the number of ageing buildings in Hong Kong which necessitate buildings rehabilitation and slow down the pace of urban decay. Furthermore, the Government’s implementation of measures for revitalisation of industrial buildings and restoration of high-end residential buildings will further facilitate demand for building maintenance and renovation contracting services. Please refer to the section headed “Industry Overview – Growth drivers for building maintenance and renovation contracting service in Hong Kong” of this [REDACTED] for details. Riding on our operational resources and experience, our Directors believe that we have competitive edge in the industry, particularly in carrying out larger building maintenance and renovation projects and in satisfying

## **BUSINESS**

---

stringent demands from customers. Our Directors believe that we are well-positioned to capture the growing demand for building maintenance and renovation contracting services in Hong Kong.

### **COMPETITIVE STRENGTHS**

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

#### **Established reputation and proven track record**

We completed over 200 projects in Hong Kong since 1992. According to the Ipsos Report, we ranked sixth among building maintenance and renovation service providers in Hong Kong in terms of the total industry revenue for 2013. We have established reputation as a dedicated contractor achieving customer satisfaction, quality of work and cost control which in turn enables our Company to gain confidence from our customers and therefore increase the opportunities of winning new projects from customers. We believe that our proven track record and our ability to deliver our jobs on time and to the satisfaction of our customers are the crucial factors to our success in the industry. We have also been admitted by the Housing Authority as a Quality Maintenance Contractor since 2001 and have enjoyed more tendering opportunities for the Housing Authority’s maintenance and renovation works contracts. As a Quality Maintenance Contractor, we are well positioned to capture DTC opportunities which enable us to maximise our revenue and profitability. We are one of the major contractors providing large-scale maintenance, improvement and vacant flat refurbishment for public housing estates, public facilities and other public properties in Hong Kong pursuant to DTCs awarded by the Housing Authority. According to the Ipsos Report, our Group ranked third among building maintenance and renovation service providers within the DTC market in Hong Kong in terms of the total revenue in the DTC market for the twelve months ended 31 December 2013. Our significant market share in the DTC market also allows our Company to gain trust of our existing customers and attract potential customers. This in turn will continue to drive the competitiveness of our Group. In addition, our Group has also received a number of awards from the Housing Authority in recognition of our service quality. For details relating to the awards granted to our Group, please refer to the paragraph headed “Awards and accreditation” of this section.

#### **Diverse experience and capabilities**

Our Group has established ourselves as a well-recognised main contractor to carry out a variety of building maintenance and renovation projects ranging from maintenance, improvement and vacant flat refurbishment for public housing estates, public facilities and other public properties in Hong Kong, maintenance and renovation works for private residential buildings (including luxury and high-end residential buildings and large-scale community residential estates) and non-residential buildings (including hotels, hostels, shopping malls, industrial buildings, universities and schools). Leveraging on the diverse nature of building maintenance and renovation projects undertaken by our Group, we are well-positioned to expand our scope of services and integrate our existing services to customise solutions that meet our customers’ requirements at a competitive pricing and reasonable cost.

## BUSINESS

---

### **Stable relationships with our key customers and subcontractors**

We have established stable business relationships with our key customers and the longest of which is over 25 years. Among our five largest customers (in terms of revenue) during the Track Record Period, we have been providing services to them for a period ranging from 1 to 25 years and a majority of such periods being over 5 years. We believe that our comprehensive service range, quality management and on-time service delivery are our key edges in maintaining long term relationships with our customers. Having good and stable business relationship with customers in the building maintenance and renovation contracting service industry is especially important because good relationships with customers can open doors for job referrals from customers who are satisfied with our work quality. This in turn allows our Group to win new projects.

Subcontracting is commonplace in the building maintenance and renovation contracting service industry in Hong Kong as it minimises the number of employees employed directly by main contractors, increases labour mobility and brings about cost efficiency. As such, maintaining good relations with our subcontractors is crucial. We have established long-term business relationship with our subcontractors who are closely monitored and supervised by us. Please refer to the paragraph headed “Control over subcontractors” in this section for our internal control measures over our subcontractors. Our five largest subcontractors (in terms of costs of services) during the Track Record Period have maintained business relationship with us for a period ranging from 2 years to 12 years. Through our past dealings with our subcontractors, we have acquired sufficient appreciation of their expertise and strengths for maintaining our internal list of approved subcontractors that are able to meet our safety and quality standards.

### **Experienced management team**

Our management team has extensive industry knowledge and project management experience in building maintenance and renovation works. Our executive Directors, namely Mr. Kan Yiu Keung and Mr. Chan Lo Kin, have over 29 and 36 years of experience in building maintenance and renovation contracting service industry, respectively. Mr. Liu Winson Wing Sun, our executive Director, has over 12 years of experience in building maintenance and renovation contracting service industry. As at the Latest Practicable Date, a majority of our senior management team have either received tertiary education or above or professional qualifications such as professional engineers. Further details of the qualification and experience of our Directors are set out in the section headed “Directors, senior management and staff” of this [REDACTED]. Their qualifications and experience facilitate the formulation of competitive tenders, which are essential to us in securing new business, and in carrying out efficient and timely implementation and management of project works. Our Directors believe that the combination of our management and technical teams’ collective expertise and knowledge of the industry, together with our highly qualified employees, have been and will continue to be our Group’s valuable assets.

## BUSINESS

---

### **Our commitment to maintaining safety standard, quality control and environmental protection**

We recognise the importance of safety, quality and environmental controls as they can directly affect our reputation, our service quality and our profitability. We have established and implemented an integrated management system for safety, environment and quality management. We have received a certificate of achievement from HKQAA for our integrated management system’s current compliance with the ISO 9001:2008 (quality management), ISO 14001:2004 (environmental management) and OHSAS 18001:2007 (occupational health and safety management) standards. Our Directors believe that our effective occupational health and safety management system would help reduce our exposure to these claims and improve our overall service quality and overall profitability. Furthermore, our customers emphasise workplace safety and environmental compliance as assessment criteria for their services providers. Thus, our good compliance track record and management system increases our ability us to secure new contracts from our customers.

### **CORPORATE STRATEGIES**

Our corporate objectives are to achieve sustainable growth in our current business and to create long-term shareholder’s value. We intend to achieve this by implementing the following corporate strategies:

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

We plan to strengthen our position in the industry by improving our services to meet the rising demands of our customers. During the Track Record Period, revenue from the Government sector contributed the largest part of our revenue. Our Directors consider that there is much room for our business expansion and market penetration in the private sector. There are various subsidies and assistance schemes provided by the Government to support private property owners who wish to undertake building rehabilitation. Such schemes include Mandatory Building Inspection Scheme, Mandatory Window Inspection Scheme, Mandatory Building Inspection Subsidy Scheme, Integrated Building Maintenance Assistance Scheme, and the Operation Building Bright project. These schemes will facilitate the demand for building maintenance and renovation contracting services as private property owners would be more driven to undertake building rehabilitation with the subsidies and support from the Government. In addition, our Directors believe that demand for building maintenance and renovation contracting services will further be driven by increasing public awareness of the importance of building safety, urban renewal projects, stricter government enforcement on building safety and increase in the number of ageing buildings in Hong Kong which necessitate buildings rehabilitation and slow down the pace of urban decay. Please refer to the section headed “Industry Overview – Growth drivers for building maintenance and renovation contracting service in Hong Kong” of this [REDACTED] for details. Furthermore, the Government’s policy on mandatory replacement of laundry pole holders (clothes-drying racks commonly known as “three joss sticks”) to stainless steel laundry clothes-drying racks, which better conform with safety standards for households living in public housing estates in Hong Kong, will generate more tendering opportunities and demand for our renovation services. In view of the above, we will continue to leverage on

## BUSINESS

---

our experience in the industry to explore the market in the private sector so as to solidify our market position in the industry and expand our market share in Hong Kong. Our Directors confirm that our Company has no immediate intention to expand our market share by acquisition.

Subsequent to 30 June 2014, we have commenced a new DTC with a notional contract value of HK\$372.6 million for a term of 36 months. In addition, we have also entered into a renovation contract for redecoration of a public housing estate with a notional contract value of approximately HK\$25.4 million for a term of 20 months and a renovation contract for conversion of an industrial building in Hong Kong from industrial use to hotel use with a notional contract value of HK\$360 million for a term of 30 months. We are also planning to tender for a new DTC, a new renovation term contract with an education institution and a new renovation project of a private residential estate in the next six to nine months.

We plan to finance the expenditure for the above new projects and future projects by the proceeds from the [REDACTED] within 24 months after the Listing, details of the allocation on use of proceeds are set out in the section headed "Future plans and use of proceeds" of this [REDACTED]. If there is deficiency in funding, such expenditure would be financed by our internal resources.

### **Expand our renovation service capacity to cover industrial building projects**

Leveraging on our experience in the building maintenance and renovation contracting service industry, we plan to further widen our spectrum of renovation services by embarking on renovation projects involving conversion of industrial buildings from industrial use to hotel or hostel use. According to the Ipsos Report, revitalisation measures have been imposed by the Government to facilitate the redevelopment and wholesale conversion of older industrial buildings with a purpose of providing more floor space for suitable uses such as hotels, office or data centres to meet Hong Kong's changing social and economic needs. Pursuant to the 2013 Policy Address, further refinements to the revitalisation measures were introduced to address certain difficulties and problems faced by applicants of wholesale conversion and redevelopment of industrial buildings. In the 2014 Policy Address, the Government announced that plans to revitalise industrial buildings will be continued in order to increase the housing supply by conducting a new round of area assessments of industrial land. Moreover, offices and hotels in particular will re-use old industrial buildings to accommodate the growing demand. Therefore, it is expected that revitalisation of industrial buildings will become one of the driving force in the building maintenance and renovation contracting service industry in Hong Kong. During the Track Record Period, we have commenced a renovation project involving conversion of factory units to hostel and completion of project is expected to take place in December 2014. In October 2014, we have been awarded a renovation contract with a contract value of approximately HK\$360 million for conversion of an industrial building in Hong Kong from industrial use to hotel use. The renovation project is expected to commence in November 2014. For purpose of such renovation project, we will also devote more resources for the design, mock-up, pre-assembling and fabrication of parts and components into a complete bathroom unit so as to customise our services to meet the customers' demand during the conversion process.

## **BUSINESS**

---

Riding on our operational resources and experience, we are well-positioned to diversify our servicing portfolio, capture new opportunities from growing demand for renovation services in the industrial sector and expand our customer base.

We plan to finance the expenditure for the abovementioned renovation project by the proceeds from the [REDACTED] for purchase of materials, machinery and equipment required for such project within 24 months after the Listing. Please refer to the section headed “Future plans and use of proceeds” of this [REDACTED] for details. If there is deficiency in funding, such expenditure would be financed by our internal resources.

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

With our continuous growth in business scale and scope, we plan to upgrade our information technology and management systems which will enable us to analyse information and records of our financial, human resources, sales and customer relationship management and enhance our operational efficiency. In addition, we will continue to enhance our operational efficiency and cost control by following the controls and procedures relating to our subcontractors engagement and supervision of our subcontractors over material procurement, which allows us to maintain a stringent standard in the selection of approved suppliers and approved subcontractors. Besides, we will further enhance our competitiveness by further enhancing our quality of services, recruiting additional staff to solicit new customers, carry out project management, tighten our controls over quality, safety and environmental compliance and provide quality customer service for our expanded customer base, and continuously providing training to our staff in respect of, among other things, workplace safety, operational skills and management and supervisory skills over our subcontractors so as to raise our standard and quality of services. In addition, we will continue to proactively manage our current customer relations, expand our customer base and enhance customer loyalty.

We expect the expenditure for the above operational and information technology infrastructure will be financed by the proceeds from the [REDACTED] which is expected to be incurred within 12 months after the Listing. Please refer to the section headed “Future plans and use of proceeds” of this [REDACTED] for details.

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

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

## BUSINESS

### OUR BUSINESS OPERATIONS

#### Scope of services

During the three financial years ended 30 June 2012, 2013 and 2014, we derived approximately 68.9%, 68.8% and 66.9% of our revenue from carrying out building maintenance services for the three financial years ended 30 June 2014, respectively. Approximately 31.1%, 31.2% and 33.1% of our revenue was derived from carrying out renovation works for the three financial years ended 30 June 2014 respectively.

The following table sets out a breakdown of our revenue during the Track Record Period by the type of our services:

	Year ended 30 June					
	2012		2013		2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Building maintenance	415,248	68.9	414,026	68.8	401,910	66.9
Renovation	<u>187,393</u>	<u>31.1</u>	<u>187,400</u>	<u>31.2</u>	<u>198,482</u>	<u>33.1</u>
Total:	<u><u>602,641</u></u>	<u><u>100.0</u></u>	<u><u>601,426</u></u>	<u><u>100.0</u></u>	<u><u>600,392</u></u>	<u><u>100.0</u></u>

#### *Building maintenance services*

Our maintenance services typically include general upkeep, restoration and improvement of existing facilities and facility components of buildings and surroundings. A large part of our building maintenance works is generated from maintenance works orders under DTCs with the Housing Authority which generally deal with maintenance, improvement and vacant flat refurbishment of public housing estates, public facilities and other public properties in Hong Kong. Apart from providing services to the public, we also provide building maintenance services to various private property management companies, universities, schools and other customers in the private sector. Examples of our maintenance services include re-roofing, external and internal wall refurbishment, floor rescreeding and retiling, spalling repair, repairing and replacing windows, door repairing, painting works, plumbing and drainage works covering areas such as public housing estates, public areas in public housing estates, private residential properties, shopping centres, markets, cook-food stalls and school campus.

For all major building maintenance contracts completed during the Track Record Period or contracts on hand as at the Latest Practicable Date, the contract period normally lasts for three years.

## BUSINESS

### *Contracts on hand*

As at the Latest Practicable Date, we have 8 building maintenance contracts on hand (including contracts in progress and contracts which are yet to commence) with a total notional or estimated contract value of approximately HK\$1,747 million, details of which are set out below:

Particulars of the contract	Category	Customer	Expected completion date <i>(Note 1)</i>	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to building maintenance services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in Kowloon, Hong Kong	Public	Housing Authority	November 2014	150,420	161,098 <i>(Note 2)</i>
Building maintenance works of a public housing estate in Hong Kong	Public	A public housing provider in Hong Kong	November 2014	2,431	478 <i>(Note 2)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for a district in the New Territories, Hong Kong	Public	Housing Authority	December 2014	171,000	167,538 <i>(Note 2)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in Kowloon, Hong Kong	Public	Housing Authority	February 2015	299,400	315,523 <i>(Note 2)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in various districts in Hong Kong	Public	Housing Authority	June 2015	252,510	171,379 <i>(Note 2)</i>

## BUSINESS

Particulars of the contract	Category	Customer	Expected completion date <i>(Note 1)</i>	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to building maintenance services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Improvement works for a shopping centre in Hong Kong	Public	Housing Authority	December 2015	63,264	15,324 <i>(Note 2)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in the New Territories, Hong Kong	Public	Housing Authority	March 2016	435,690	123,336 <i>(Note 2)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in Kowloon, Hong Kong	Public	Housing Authority	June 2017	372,600	– <i>(Note 3)</i>
Total:				1,747,315	954,676

*Notes:*

1. Expected completion date in general refers to the expected completion date as specified in the relevant contract, and if an application for extension of time has been submitted and approved by the customers, such extended completion date would be taken as the expected completion date. Where no expected completion date is specified in a contract, expected completion date refers to the completion date to the best estimation of the management of our Group.
2. Building maintenance works mainly comprise various number of works orders issued under the DTC. Contract value only represents the estimated amount of the works orders under the DTC whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group as at 30 June 2014.
3. This DTC commenced in July 2014 and therefore no revenue was recorded during the Track Record Period.

## BUSINESS

### *Contracts completed*

The following table sets forth the building maintenance projects that we have completed during the Track Record Period:

Particulars of the contract	Category	Customer	Year of completion	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to building maintenance services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Term contract for in-flat maintenance services for various districts in Hong Kong	Public	Housing Authority	2011	36,000	1,544 <i>(Note 3)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for public properties in Kowloon, Hong Kong	Public	Housing Authority	2011	100,500	1,077 <i>(Note 3)</i>
DTC for the maintenance and vacant flat refurbishment for a district in the New Territories, Hong Kong	Public	Housing Authority	2012	159,000	21,538 <i>(Note 3)</i>
External wall repair and associated works at a private residential estate in Hong Kong	Private	A property management company of a private real estate in Hong Kong	2012	29,141	20,351 <i>(Note 3)</i>
Lift lobbies maintenance at a private residential estate in Hong Kong	Private	A private property management company in Hong Kong	2012	24,725	20,726 <i>(Note 3)</i>
Repair works at a private residential estate in Hong Kong	Private	A private property management company in Hong Kong	2013	63,306	48,042 <i>(Note 3)</i>

## BUSINESS

Particulars of the contract	Category	Customer	Year of completion	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to building maintenance services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Building maintenance works at a university in Hong Kong	Public	A university in Hong Kong	2013	8,833	7,671 <i>(Note 3)</i>
Term maintenance contract for shopping centres, carparks, markets and cook-food stalls in the New Territories, Hong Kong	Private	A major real estate management company in Hong Kong	2013	14,320	62,090 <i>(Note 4)</i>
DTC for the maintenance, improvement and vacant flat refurbishment for various districts in Hong Kong	Public	Housing Authority	2013	126,000	80,902 <i>(Note 3)</i>
Building maintenance works relating to renewing ceramic tiles to the building border and column of residential buildings at a private residential estate in Hong Kong	Private	A private property management company in Hong Kong	2013	7,510	7,509 <i>(Note 2)</i>
Term repair contract for the existing properties in a district in Kowloon, Hong Kong	Public	A statutory body responsible to facilitate the regeneration of the older urban areas of Hong Kong	2014	6,788	1,113 <i>(Note 2)</i>
Others <i>(Note 1)</i>		Miscellaneous customers	2011-2014	7,672	3,944
Total				<u>583,795</u>	<u>276,507</u>

## BUSINESS

---

*Notes:*

1. There are approximately 5, 6 and 3 projects which were ongoing and are grouped under the category "Others" during the three financial years ended 30 June 2012, 2013 and 2014, respectively.
2. Building maintenance works mainly comprise various number of works orders issued during the period of the DTC. Contract value only represents the estimated amount of the works orders under the DTC whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group as at 30 June 2014.
3. The contract value is greater than the amount of revenue recognised during the Track Record Period because a portion of the revenue has been recognised before the Track Record Period.
4. The amount of work orders issued under the contract was substantially greater than the contract value initially estimated under the contract due to increase in this customer's budget towards this contract.

### ***Renovation services***

Similar to our building maintenance services, we provide renovation services to the Government, incorporated owners of private residential properties, private property management companies, universities and education institution, charitable organisations and other customers in the private sector. A large part of our renovation works is typically generated from renovation works orders under term contracts and lump sum renovation contracts which deal with renovation works such as alteration, upgrading and fitting-out works, changes in facilities configuration; fabrication, modification, removal, or installation of hardware and equipment; signs; erection, relocation, or removal of partitions, doors, and windows; and changes in type of finishes and flooring materials; and other renovation works that upgrade the general condition of buildings and their facilities. Our renovation services cover areas such as hostels, factories, shopping centres, school campus, carparks and other common areas of public housing and private residential properties.

For all major renovation contracts completed during the Track Record Period or contracts on hand as at the Latest Practicable Date, the contract period normally ranges from 2 months to 36 months.

## BUSINESS

### *Contracts on hand*

As at the Latest Practicable Date, we have 8 renovation contracts on hand (including contracts in progress and contracts which are yet to commence) with a total notional or estimated contract value of approximately HK\$682.3 million, details of which are set out below.

Particulars of the contract	Category	Customer	Expected completion date <i>(Note 1)</i>	Estimated/Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to renovation services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Renovation works at a hostel of a charitable organisation in Hong Kong	Public	A charitable organisation in Hong Kong	October 2014	31,278	17,267 <i>(Note 2)</i>
Demolition and spalling works in respect of an industrial building in Hong Kong	Private	A private company incorporated in Hong Kong	October 2014	3,500	600 <i>(Note 2)</i>
Building renovation works at an industrial building in Hong Kong	Private	A private company incorporated in Hong Kong	December 2014	15,511	4,653 <i>(Note 2)</i>
Renovation works at a high-end residential estate in Hong Kong	Public	An incorporation of the property owners of a high-end residential estate in Repulse Bay, Hong Kong	February 2015	131,658	103,744 <i>(Note 2)</i>
Renovation term contract for buildings of an education institution in Hong Kong	Public	An education institution	March 2015	57,461	112,567 <i>(Note 3)</i>
Renovation term contract for buildings of an education institution in Hong Kong	Public	An education institution	March 2015	57,461	129,978 <i>(Note 3)</i>
Renovation and conversion of an industrial building from industrial use to hotel use located in the New Territories, Hong Kong	Private	A private company incorporated in Hong Kong	May 2016	360,000	— <i>(Note 4)</i>

## BUSINESS

Particulars of the contract	Category	Customer	Expected completion date <i>(Note 1)</i>	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to renovation services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Renovation contract for redecoration of a public housing estate	Public	Housing Authority	June 2016	25,389	– <i>(Note 5)</i>
Total:				<u>682,258</u>	<u>368,810</u>

*Notes:*

1. Expected completion date in general refers to the expected completion date as specified in the relevant contract, and if an application for extension of time has been submitted and approved by the customers, such extended completion date would be taken as the expected completion date. Where no expected completion date is specified in a contract, expected completion date refers to the completion date to the best estimation of the management of our Group.
2. The contract value of a renovation contract only represents the estimated amount of works to be performed under the contract whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group under the contract as at 30 June 2014.
3. The renovation contract with this customer comprise various number of renovation works orders issued during the period of the contract. Contract value only represents the estimated amount of the works orders under the contract whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group as at 30 June 2014. The amount of renovation works orders issued under the contract was substantially greater than the contract value initially estimated under the contract due to increase in the customer’s budget towards this renovation contract.
4. This renovation contract is expected to commence in November 2014 and therefore no revenue was recorded during the Track Record Period.
5. This renovation contract is expected to commence in October 2014 and therefore no revenue was recorded during the Track Record Period.

## BUSINESS

### *Contracts completed*

The following table sets forth the renovation projects that we have completed during the Track Record Period:

Particulars of the contract	Category	Customer	Year of completion	Estimated/ Notional contract value <i>(Note 2)</i> <i>(HK\$'000)</i>	Amount of revenue attributable to renovation services recognised during the Track Record Period <i>(Note 2)</i> <i>(HK\$'000)</i>
Fire safety improvement works for a shopping arcade in Hong Kong	Private	A private real estate management company in Hong Kong	2011	6,800	2,604 <i>(Note 3)</i>
Renovation term contract for buildings of an education institution in Hong Kong	Public	An education institution	2012	73,914	78,617 <i>(Note 4)</i>
Renovation term contract for buildings of an education institution in Hong Kong	Public	An education institution	2012	76,332	58,803 <i>(Note 3)</i>
Upgrading of electricity supply at a residential estate in Hong Kong	Public	A public housing provider in Hong Kong	2012	37,317	9,918 <i>(Note 3)</i>
Alterations and additions term contract for building works at a university in Hong Kong	Public	A university in Hong Kong	2012	8,218	1,245 <i>(Note 3)</i>
Addition of lift towers to a residential estate in Hong Kong	Public	Housing Authority	2013	37,648	37,497 <i>(Note 2)</i>
Others <i>(Note 1)</i>		Miscellaneous customers	2011-2014	22,055	15,782
Total:				<u>262,274</u>	<u>204,466</u>

## BUSINESS

---

*Notes:*

1. There are approximately 16, 9 and 5 projects which were ongoing and are grouped under the category “Others” during the three financial years ended 30 June 2012, 2013 and 2014, respectively.
2. The contract value of a renovation contract only represents the estimated amount of works to be performed under the contract whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group under the contract as at 30 June 2014.
3. The contract value is greater than the amount of revenue recognised during the Track Record Period because a portion of the revenue has been recognised before the Track Record Period.
4. The renovation contract with this customer comprises various number of renovation works orders issued during the period of the contract. Contract value only represents the estimated amount of the works orders under the contract whereas the revenue recognised during the Track Record Period represents the actual amount of works performed by our Group as at 30 June 2014. The amount of renovation works orders issued under the contract was greater than the contract value initially estimated under the contract due to increase in the customer’s budget towards this renovation contract.

## BUSINESS

Summarised below is the table reconciling the aggregate contract value of the projects at the beginning and end of each year and contract value of new projects during the Track Record Period:

	<b>Number of projects</b>	<b>Estimated/ Notional contract value HK\$'000</b>
<i>As at 1 July 2011</i>		
Existing projects	24	1,335,688
<i>During the financial year</i>		
Number of contracts completed	24	394,468
New contracts awarded	19	292,212
<i>As at 30 June 2012</i>		
Existing projects	19	1,233,433
<i>During the financial year</i>		
Number of contracts completed	13	113,088
New contracts awarded	14	705,986
<i>As at 30 June 2013</i>		
Existing projects	20	1,826,331
<i>During the financial year</i>		
Number of contracts completed	15	273,529
New contracts awarded	8	118,781
<i>As at 30 June 2014</i>		
Existing projects	13	1,671,583
Number of contracts completed	nil	nil
New contracts awarded	3	757,989
<i>As at the Latest Practicable Date</i>		
Existing projects	16	2,429,571

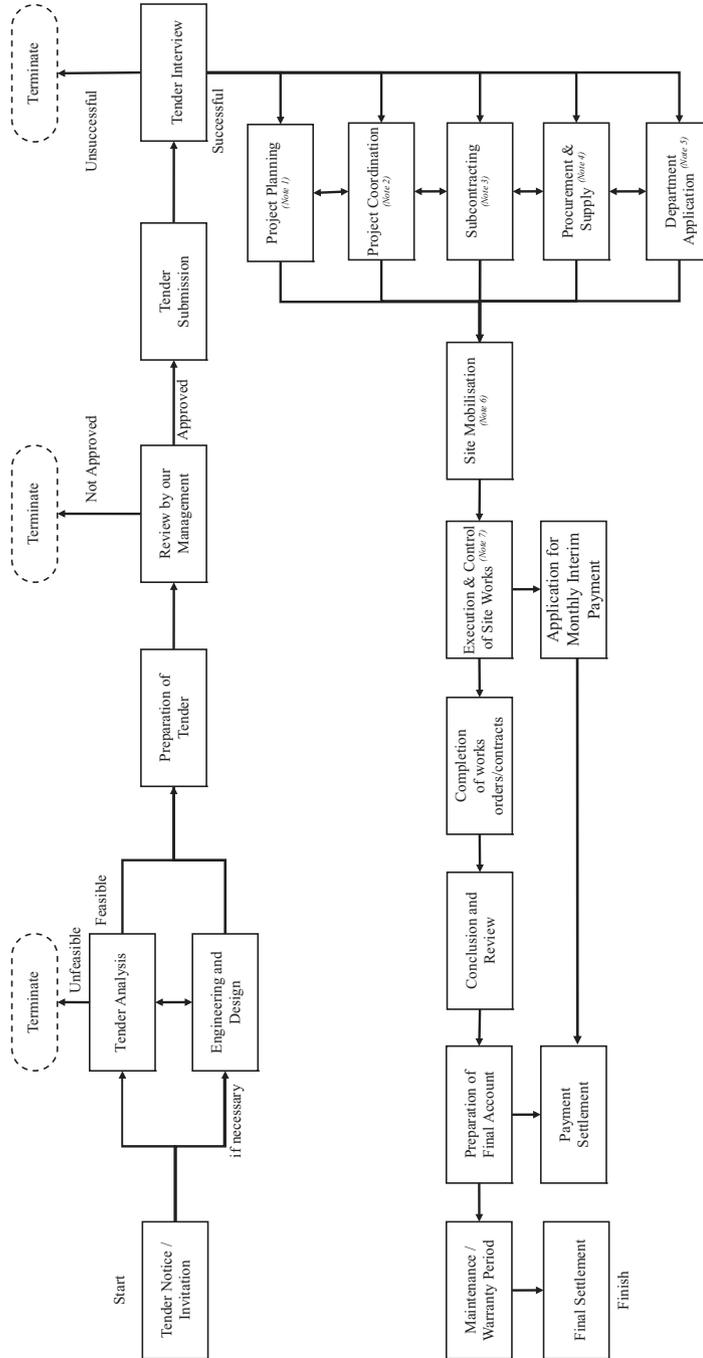
As illustrated in the table above, as at 30 June 2014, 13 projects were still in progress.

Subsequently, we have been awarded 3 new projects. As at the Latest Practicable Date, there were 16 projects on hand which 14 of them were still in progress and 2 of them were yet to commence.

**BUSINESS**

**Operation flow**

As a main contractor, we carry out overall project implementation of our building maintenance and renovation projects. Our operation principally involves preparation of tenders, executing the required works through our project execution team and subcontractors, and coordinating, supervising and monitoring our subcontractors in all stages of the projects. Set out below is the typical work-flow of our project operations:



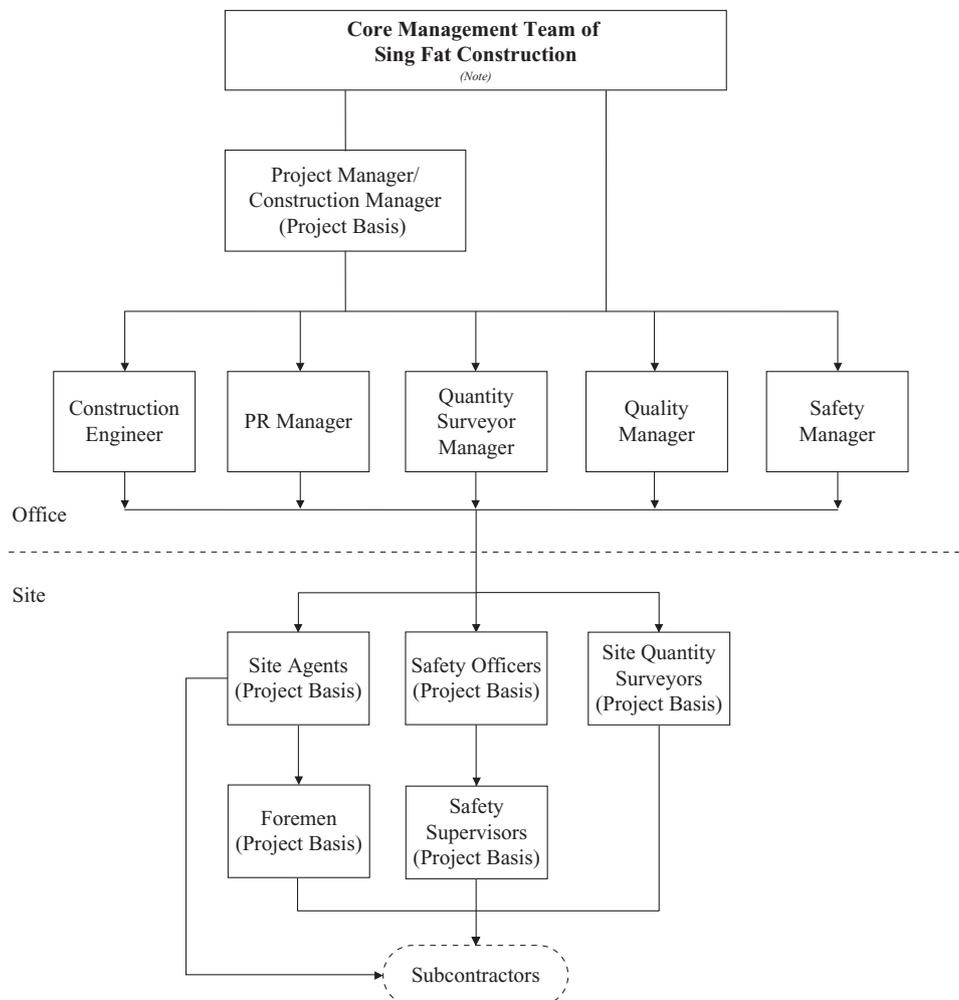
## BUSINESS

*Note:*

1. Project planning includes preparing work programme, project plan and safety plan
2. Project coordination includes organising project meetings with site safety committee and information distribution
3. Subcontracting includes appointment of subcontractors and organising subcontracting works
4. Procurement and supply include managing and supervising subcontractors for purchasing materials and equipment required for the projects
5. Department application includes applications for permission/consenting for site operation
6. Site mobilisation includes organising site facilities, safety and environmental protection measures and conducting safety training
7. Execution and control of site works include carrying out site works, inspecting materials, controlling subcontractors, controlling progress, environmental and safety inspections

### Structure of our project management team

The structure of our project management team is set out below:



## BUSINESS

---

*Note:* The core management team of Sing Fat Construction comprises, among others, Mr. Liu Winson Wing Sun (the safety director), Mr. Kan Yiu Keung (the technical director and project director), Mr. Chan Lo Kin (the administration director) and Mr. Jacky Cheung Yat Ming (the technical director and construction engineer).

The above project management structure may vary depending on our customers' requirements, contractual specifications and the complexity and size of our projects.

The responsibilities of our key project management team members are set out below:

### ***Administration Director***

Our administration director is our management representative who is responsible for managing our management system in accordance with ISO9001:2008 standards and requirements. He works with our project directors for preparing tender submissions, organising tender process, carrying out tender and contract review, managing list of approved subcontractors and suppliers, reviewing and approving subcontracting documents, allocating company resources and manpower for individual project and carrying out periodic performance appraisal for our managerial staff. He also works with our project director to monitor the project progress.

### ***Project Director***

Our project director works with our administration director to monitor project progress, liaising with our customer for contract related matters, working with our administration director to prepare tender submissions and monitoring the quality and work progress of subcontractors.

### ***Safety Director***

Our safety director is responsible for formulating our occupational health and safety policies, overseeing and managing our safety department for site safety management, organise safety committee meeting.

### ***Project Manager/Construction Manager***

Our project/construction manager is responsible for day-to-day project execution and administration on project basis, assisting our project director in conducting contract review, preparing quality and environmental plan for individual project, controlling and monitoring workmanship, project progress and pollution control, controlling and managing the work performance of subcontractors and suppliers designated for the project and handling complaints from customers or other external parties.

### ***Technical Director/Construction Engineer***

Our technical director and construction engineer are responsible for resolving technical queries, organising technical submission for relevant authorities' approval, reviewing and approving subcontractors' technical submissions.

## **BUSINESS**

---

### ***Quality Manager***

Our quality manager is responsible for monitoring the implementation of our quality management system, monitoring the quality of materials and equipment purchased by our subcontractors, controlling non-conformity, monitoring implementation of corrective and preventive actions, conducting staff performance appraisal and organising staff training.

### ***Safety Manager***

Our safety manager is responsible for assisting our safety director to implement our safety and environmental management system, develop our safety management system and procedures, coordinating with our safety officers to implement our safety and environmental management system, monitoring overall performance of our safety and environmental management and report to our safety director, coordinate with our safety officers to identify and review statutory requirement for occupational health and safety and evaluate our compliance of statutory compliance on site.

### ***Site Agent***

Our site agent is responsible for assisting our project manager to supervise and monitor the overall workforce and work progress on site, supervising workmanship, quality and pollution on site and coordinating with our safety officer to implement our occupational health and safety management on site.

### ***Public Relations Manager (PR Manager)***

Our PR manager is responsible for establishing and managing relationship between our customers, other external parties affected by our project execution (such as tenants of public housing estates) and our Company, promoting customer service for internal staff and handling customers' complaints.

### ***Quantity Surveyor Manager***

Our quantity surveyor manager is responsible for assisting our administration director and project director to prepare tendering documents, cost estimation, assess quantity of completed works, prepare interim payment submissions and prepare quantitative information for claims and final accounts.

### ***Site Quantity Surveyor***

Our site quantity surveyor is responsible for assisting our quantity surveyor manager to prepare assessment of quantity of completed works, interim payment submissions, quantitative information for claims and final accounts on project basis.

## **BUSINESS**

---

### ***Foreman***

Our foreman is responsible for assisting our site agent to supervise and coordinate the operation on site, carrying out in-process and final inspection and supervise the site measures for pollution control on project basis.

### ***Safety Officer***

Our safety officer is responsible for organising and supervising site safety measures according to statutory requirement, carrying out hazard identification, risk management and control, organising site safety training, carrying out site safety and environmental inspection, organising and analysing statistical data for incidents and accidents, carrying out incidents and accidents investigations, promoting site safety awareness, assisting our safety director to organise and conduct site safety committee meeting on monthly basis, advising the site safety committee on changes in statutory requirement for site safety, organising safety audit, coordinating with our safety supervisors to identify and review statutory requirement for occupational health and safety and evaluate our compliance of statutory compliance on site.

### ***Safety Supervisor***

Our safety supervisor is responsible for assisting our safety officer to implement site safety measures and monitor our day-to-day site safety management.

## **Operation process**

### ***Projects identification***

Building maintenance and renovation works contracts are generally awarded through tenders. Potential projects are identified through regular review of the tender notices published on the Gazette, local press and other publicly available information such as the websites for certain customers or receiving invitation letters directly from public sector customers. For public sector works, invitations to tender are normally by invitation or advertised in the Gazette and are open to approved contractors to participate. As for private sector customers, we are also informed of projects subject to tender by receiving invitation letters directly from private customers or their representatives. In relation to our existing term contracts which are about to expire, the general timeframe for submitting new tenders for renewing the term contract with the same customer is approximately six to seven months prior to expiry of such contract. We also enter into service contract with private customers by way of quotations for provision of renovation services of relatively smaller contract sum amount.

### ***Tender analysis and preparation of tenders***

After receiving the tender or quotation details, our tender review team, which consists of our administration director, project director, safety director, quantity surveyor manager and other personnel appropriate to particular project requirements, makes a preliminary assessment of the requirements of the tender or quotation. In our assessment, in considering whether to bid for the tender or accept the request for a quotation, we evaluate the

## BUSINESS

---

profitability of the projects, the feasibility of undertaking such project with reference to technical requirements, our expertise and capacity, our available manpower resources, availability of suitable subcontractors, schedule, quality expectation, quantity specifications, preliminary safety and environmental risk analysis and other possible risk factors associated with such project. While preparing the terms of our initial tender offer, we take into account a number of factors including our relationship with that customer, our business strategy on sector penetration, prevailing market rates and market trends, material costs, cost of subcontractors and allocation of human resources, the need for procurement of equipment or additional supplies, our budget and the requirements of the tender or quotation including any specific requirements. We also inspect the site for any other information material for considering the initial offer. Details of our initial tender offer are reviewed and endorsed by our tender review team before submission to the customer for consideration and tender interview.

As the fees charged by us are generally fixed under the contract, we may bear the risk of any cost fluctuations. To mitigate cost fluctuation risks, we carefully consider during the pre-contract negotiations stage, the terms of the tender contract including but not limited to the service fees chargeable based on our pricing policy, circumstances for service fee adjustment and the payment terms offered to customers as detailed in the paragraph headed “Service fees pricing policy, adjustments, payment terms and credit period” of this section. To ensure an accurate estimate on costs of the projects, we may invite our approved subcontractors to discuss costs assessment during the tendering process. In certain cases involving private customers, we may be required to provide a performance bond in favour of our customer for due performance of the contract as detailed in the paragraph headed “Customers, sales and marketing – General terms of contracts with customers” of this section.

After the general terms are negotiated and agreed, we enter into a formal contract with the customer. The general terms of the tender contract are set out in the sub-paragraph headed “Customer, sales and marketing – General terms of contracts with customers” of this section. Prior to signing, our tender review team will cross check the terms of the initial offer with that of the tender contract or quotation for any material variation.

If we are awarded the tender contract or we agree on the terms of the quotation, we will proceed to the project implementation stage. However, in the event that we do not secure the tender, we will gather information on the winning tender from public tender results and customers’ feedback. We use such information to trace and analyse market trends.

### ***Project implementation***

The implementation process includes formation of a project execution team, appointment, delegation and supervision of works to subcontractors, preparation of project plans, supervising our subcontractors for procurement of materials and equipment and monitoring the work progress and performance of our subcontractors to ensure our projects are completed on time and within budgets and in accordance with our quality and safety standards.

## BUSINESS

---

### *Formation of a project execution team*

Once a contract is awarded, a project execution team is then formed. The size of our project execution team depends on the scope of services, complexity of the project and our available resources. Our project execution team typically consists of a project manager (or construction manager for a district term contract), a safety officer, a safety supervisor, a site quantity surveyor, a site agent, a general foreman and a number of technical staff chosen by the project director or the administration director to meet the specific requirements under the relevant contract. Please refer to the paragraph headed “Our business operation – Structure of our project management team” of this section for their respective duties. Internally, the project manager convenes meetings with members of the project execution team and our subcontractors on monthly basis to review the progress of the project and to resolve any issues encountered during project implementation. Externally, regular meetings are also held between our project director, administration director, our project manager and representatives of our customer or its architects, consultants or surveyors on weekly basis to keep them informed of the progress of the project. Monthly meetings are held with our customers to discuss matters on material delay (if any) or other issues materially affecting the project and performance of the contracts.

### *Preparation of project plans, project coordination, applications to the Government and site mobilisation*

Prior to commencement of a project, our project manager works in collaboration with our administration director and project director to review the customers’ requirements, contract drawings and project specifications, the scope of works as indicated in the customers’ brief or tender documents, contract period, completion date, existing physical constraints and difficulties, design and development control, identification of significant environmental aspects and their control, statutory requirement for environmental protection and pollution control, site layout, planned manpower and resources and safety planning. Based on the above factors and analysis, contract quality plan, occupational health and safety plan, environmental management plan, subcontracting management plan, inspection plan and customer services plan are drawn up and submitted to client for approval prior to commencement of a project. Moreover, our project execution team organises project meeting with our site safety committee for information distribution on safety compliance matters. We also apply to government departments such as the Environmental Protection Department for setting up billing accounts for waste disposal and notify the Building Authority and the Labour Department of our site operation prior to commencement of a project. Furthermore, we organise site facilities and arrange for safety and environmental protection measures prior to commencement of a project.

### *Procurement of materials and equipment*

The materials and equipment required for the projects are normally sourced through our subcontractors. For details of the purchasing arrangement, please refer to the paragraph headed “Subcontracting arrangements – Purchasing arrangements” of this section. Materials required for our projects typically include wooden materials, tiles, materials for plumbing, sanitary fitting and water proofing, metal and steel materials, louvre materials, cement materials and paint materials. Our quality manager coordinates with the subcontractors to

## **BUSINESS**

---

agree on quantity, price, size and type of the materials required for the project and obtain catalogues, samples and quotations for the materials required. Proposed materials and samples (when required) are required to be submitted to our quality manager and our customers for approval prior to purchasing. All materials ordered are sent directly to the relevant site for inspection by our site agent and foreman before utilisation.

### *Delegation of works to subcontractors*

For all of our contracts, we act as the main contractor and delegate works to our subcontractors under close supervision and management of our project management team. Please refer to the paragraph headed "Subcontracting arrangement" of this section for further details.

### *Inspection, completion and application for payment and certification*

In the course of our works, our site agent coordinates inspection on all works completed on a regular basis to ensure that the works performed by our Group comply with the requirements as set out in the relevant contract. A joint inspection will be conducted by our site agent, the architects, surveyors or any other representatives appointed by our customers to confirm and certify the completion date of the relevant works order before our application for interim payment from the customers.

We receive progress payments pursuant to the terms of each respective contract and our application for progress payments is normally made on a monthly basis. Generally, our quantity surveyor manager makes applications for interim payments every month and the architects, surveyors or other representatives appointed by our customers issue a payment certificate certifying the portion of works completed after inspection. Payment terms varies with different types of customers and contracts. Please refer to the paragraph headed "Customers, Sales and Marketing – Service fees pricing policy, adjustments, payment terms and credit period – Payment terms and credit period" of this section for details.

For payments to our subcontractors, we adopt a "pay when paid" approach i.e. we pay our subcontractors within seven days after we receive payment from our customers pursuant to the terms of the main contract.

### *Defects rectification and maintenance period*

Our customers normally require a defects liability and maintenance period, during which we are responsible for rectifying works defects. The defects liability and maintenance period typically ranges from 12 months to 24 months after completion of the relevant contracts or works orders. We require a back-to-back defects liability and maintenance period from our subcontractors. If there are any works defects found by our customers, the relevant subcontractor is in general responsible for rectifying the works defects in accordance with the back-to-back defects liability clause of the subcontracting agreement with our Group and thus such subcontractor is usually the party to bear all the costs in rectifying the works defects. There were no material claims which were brought against our Group by our customers for defects liability during the Track Record Period.

## BUSINESS

### CUSTOMERS, SALES AND MARKETING

#### Customers

During the Track Record Period, a significant portion of our revenue derives from customers in the Government and public sector. The following table sets out a breakdown of our total revenue during the Track Record Period according to our customers' categorisation:

	For the year ended 30 June					
	2012		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Public customers <sup>(Note 1)</sup>	536,686	89.1	478,296	79.5	507,017	84.4
Private customers <sup>(Note 2)</sup>	65,955	10.9	123,130	20.5	93,375	15.6
<b>Total</b>	<b>602,641</b>	<b>100.0</b>	<b>601,426</b>	<b>100.0</b>	<b>600,392</b>	<b>100.0</b>

*Notes:*

- (1) Public customers mainly consist of departments of the Government, education institutions and charitable organisations.
- (2) Private customers mainly consist of privately-owned companies.

We have established a relatively broad customer base for our services including the Housing Authority, a major real estate management company in Hong Kong, incorporated owners of private residential properties, universities, schools and education institutions, charitable organisations and other customers in the private sector. We have not experienced any material seasonal fluctuations in our revenue given that (i) most of our revenue during the Track Record Period derived from term contracts which are generally for a period of three years; and (ii) due to the diverse nature of our services. During the Track Record Period, services provided to our five largest customers are summarised as follows:

	Services provided by our Group during the Track Record Period <sup>(Note 8)</sup>	Approximate number of years of business relationship	Revenue recognised for the year ended 30 June		
			2012	2013	2014
			HK\$'000	HK\$'000	HK\$'000
Customer A <sup>(Note 1)</sup>	(i) and (ii)	25	372,013	361,315	365,100
Customer B <sup>(Note 2)</sup>	(ii)	12	152,940	108,742	118,285
Customer C <sup>(Note 3)</sup>	(i) and (ii)	8	11,239	37,977	26,920
Customer D <sup>(Note 4)</sup>	(i)	2	–	56,477	47,267
Customer E <sup>(Note 5)</sup>	(i) and (ii)	7	35,210	27,357	13,906
Customer F <sup>(Note 6)</sup>	(i)	8	19,506	845	–
Customer G <sup>(Note 7)</sup>	(ii)	1	–	–	17,267

*Notes:*

- (1) A government body responsible for the provision, management, maintenance and other housing related services of the public housing in Hong Kong.

## BUSINESS

---

- (2) An education institution.
- (3) A major real estate management company in Hong Kong.
- (4) An incorporation of the property owners of a high-end residential estate in Repulse Bay, Hong Kong.
- (5) A private property management company in Hong Kong.
- (6) A property management company of a private residential estate in Hong Kong.
- (7) A charitable organisation in Hong Kong.
- (8) Types of services provided
  - (i) Building maintenance services
  - (ii) Renovation works services

Our largest customer, namely, the Housing Authority (customer A), accounted for approximately 61.7%, 60.1% and 60.8% of our revenue for the three financial years ended 30 June 2014, respectively. Our five largest customers together accounted for approximately 98.1%, 98.4% and 95.7% of our revenue for the three financial years ended 30 June 2014, respectively.

All of our five largest customers during the Track Record Period are independent third parties. None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of the five largest customers of our Group during the Track Record Period. We have continued to serve the above mentioned customers subsequent to the Track Record Period.

### **General terms of contracts with customers**

The principal terms of the contracts with our customers are set out below. We entered into service contract with our customers on project basis. We do not enter into any long-term master contract with any of our customers.

### ***Scope of services and resource allocation***

Our service contracts with customers set out the exact scope of services following our customer's specifications and requirements. During the Track Record Period, none of our service contracts entered into with our customers contained exclusivity clause which restricts our ability to provide services to other customers. Additionally, the service contracts may also specify the expected project management structure, contractual specifications on quality, occupational safety, health and environmental management and other technical specifications in connection with the project.

### ***Term and termination***

The contract period for building maintenance projects normally lasts for three years whereas the contract period for renovation projects normally ranges from 2 months to 36 months. Our tender contracts typically include a termination clause giving both parties the

## BUSINESS

---

right to terminate in different circumstances. In certain tender contracts, each party may terminate the contract by prior notice to the other party. Tender contracts may be terminated by our customers if we (i) fail to remedy within a specified period of time a material breach of the contract; (ii) provide incomplete, untrue or misleading particulars or data in the tender submission; (iii) substantially or persistently fail to comply with the standard of services required by such contract; (iv) become bankrupt or go into liquidation or a petition has been filed against us; or (v) make a general assignment, composition or arrangement for the benefit of creditors. We may terminate the contract if our customer (i) fails to remedy within a specified period of time a material breach of the contract; (ii) becomes bankrupt or goes into liquidation or a petition has been filed against it; or (iii) makes a general assignment, composition or arrangement for the benefit of creditors.

The service period of quotations are generally shorter than such period under the tender contracts. Quotations may not specify any service period but instead continue until completion of the service or prior notice by one party to the other party.

During the Track Record Period, none of our contracts was terminated by reason of material breach by us or liquidation or petition for bankruptcy or winding up of the other party to the agreement.

### *Services fees chargeable and payment terms*

The service contract sets out the services fees chargeable by us (and in some cases, circumstances for adjustment) and the payment terms. The services fees chargeable are generally fixed without any explicit price adjustment mechanism. For details of our services fees including possible adjustments and payment terms, please refer to the paragraph headed "Service fees pricing policy, adjustments, payment terms and credit period" below.

### *Retention money*

It is a common practice in the industry that customers hold up a portion of progress payments as retention money. Such practice applies to our contracts other than DTCs and term contracts with an education institution (being one of our five largest customers during the Track Record Period). The retention money normally represents 5-10% of the total contract sum which is released to us upon expiry of the defects liability and maintenance period. The defects liability and maintenance period usually lasts for 12 months to 24 months after completion of the relevant contracts. The amount of retention money is normally capped at an amount not exceeding 5% of the total contract value.

### *Orders for variations*

Customers in general have the right to order variations in the course of our performance of the relevant contracts. The rates for the works under such variation order(s) are in general to be agreed upon between us and the architects or surveyors appointed by our customers in accordance with the provision of the schedule of rates as provided in the relevant contract or as may be agreed between our customers and our Group.

## BUSINESS

---

### *Liquidated damages*

In order to secure due and timely performance of a main contractor, customers are generally entitled to liquidated damages if we fail to complete the works within the specified completion date under the contract (or such later date agreed by our customers). Such liquidated damages are determined on a daily basis with reference to the schedule of fixed rates or a formula prescribed in the contract, whichever is applicable. During the Track Record Period, the aggregate amount of liquidated damages paid by our Group was not material and did not exceed 1% of our revenue for each of the three financial years ended 30 June 2014. Our Directors do not expect any material delay in the time of completion of projects in progress as at the Latest Practicable Date which is likely to cause liquidated damages to be imposed on our Group. In any event, our subcontractors are required to indemnify our Group for any loss incurred by our Group as a result of a delay in completion of projects.

### *Defects liability/Maintenance period*

Our customers normally require a defects liability and maintenance period, during which we are responsible to rectify works defects. The defects liability and maintenance period typically ranges from 12 months to 24 months after completion of works orders or contracts. We require a back-to-back defects liability and maintenance period from our subcontractors. If there is any work defects found by our customers, the relevant subcontractor is in general responsible for rectifying the work defects in accordance with the back-to-back defects liability clause in the subcontracting agreement between our Group and the subcontractors. For contracts other than DTCs and term contracts with an education institution (being one of our five largest customers during the Track Record Period), portion of progress payment are held up by our customers as retention money during such defects liability and maintenance period.

### *Security and other protections for customers*

There are a number of terms which may be included in our contracts for the protection of our customers including provision of performance/surety bond, provision of indemnity and adequate insurance coverage, as summarised in the following paragraphs.

#### *Performance bond requirement*

For some of the contracts with private sector customers, we are required to provide performance bonds that range from 5% to 10% of the total contract sums issued by banks in favour of the customers as security for the due performance and observance of our Group's obligations under the service contracts entered into between our Group and our private sector customers. If our Group fails to perform its obligations to the satisfaction of our customers that leads to a breach of contract to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated in such demand. Our Group will then become liable to compensate such banks accordingly. The performance bonds are normally released upon completion of the project or as specified in the relevant contract. As at 30 June 2012, 2013 and 2014, performance bonds issued by banks to our customers amounted to approximately HK\$15.4 million, HK\$10.3 million and

## BUSINESS

---

HK\$6.9 million, respectively. The performance bonds were issued by our bank in favour of the relevant customers. As such, we do not recognise any liabilities on our combined statements of financial position until such performance bonds are deducted by our customers due to defaults and breaches under the relevant contracts. During the Track Record Period, there was no deduction from performance/surety bonds by our customers due to a breach of contract.

### *Indemnity for damages and breach*

We are normally required to indemnify our customers for, among others, liabilities (i) in respect of personal injury or death of any person or damage to any property arising out of the performance of our services under the contracts; and (ii) breach of contracts by us. Our Directors confirm that we had not experienced any material claims by our customers arising from breach of contracts during the Track Record Period and up to the Latest Practicable Date.

### *Adequate insurance*

We are required to obtain adequate insurance cover for the above risks and any other liability in respect of our employees, employees of our subcontractors as well as other third party liabilities. For details relating to the insurance arrangement, please refer to the paragraph headed “Insurance” of this section.

## **Service fees pricing policy, adjustments, payment terms and credit period**

### *Pricing policy, adjustments and cost control*

Our pricing policy takes into account various factors which include: (i) prevailing market rates; (ii) cost analysis taking into account services provided, potential increase in wages, resources allocated to the project, the relevant term of service, material costs, subcontractors’ fees, size of project and expected timetable provided by the customer; (iii) our budget and determination of a reasonable profit margin; and (iv) relationship, reputation or background of the customer.

In light of the increasing labour costs and the labour intensive nature of our business, it is important for us to accurately estimate our cost in preparing tenders or pricing our services. We believe that our customers expect accurate assessment of cost (which should take into consideration potential increases in material costs and labour costs) prior to entering into any service contracts or submitting any bids for tenders. Furthermore, most of our contracts are tender contracts and the terms of the tenders are fixed or pre-determined in the contracts which do not include any explicit price adjustment mechanism. For DTCs entered into with the Government, there is limited price adjustment mechanism mainly with reference to price index on costs of labour and materials need in public sector construction projects compiled by the Census and Statistics Department. Accordingly, we bear the risk of costs overrun as set out in the section headed “Risk Factors – We may suffer from cost overrun and our profitability may be adversely affected” of this [REDACTED].

## BUSINESS

---

In order to control our Group's overall operational costs and avoid cost overrun, we mostly rely on our assessment of costs in the stage of preparing the terms of our initial tender offer as a way to pass potential increase in service costs to customers and to tackle the risk of cost increment over time, and rely on our cost control measures to avoid cost overrun. We have generally been able to take into account potential increase in costs during the tendering process with reference to our past experience. In addition, in the course of project execution, based on the site agent's or foreman's report and customer feedback, we are able to monitor the progress of each project and if we identify material cost overrun with reference to the original estimates of the monthly budget, our quantity surveyor manager will investigate the causes and assess the cost overrun to see if any follow-up actions are required.

In the event that our customers order variations of works, our quantity surveyor manager will ascertain the amount of additional cost and expenses which is subject to the approval of the architects or quantity surveyors appointed by our customers. Furthermore, our service fees may be reduced in cases where the service contracts give customers the right to deduct service fees payable if our subcontractors are engaged to rectify defects in our services or other matters not to our customer's satisfaction, execution of outstanding works or if there is delay in completion without a valid and justifiable reason. Our Directors confirm that we had not experienced any cases that our service fees were materially reduced by our customers for the aforesaid reasons during the Track Record Period. In any event, our subcontractors are required to indemnify us for any loss and damage arising from their failure to execute their works in accordance with customers' requirements.

### *Payment terms and credit period*

We submit interim payment applications to customers on a monthly basis in respect of the value of the work we have performed in the preceding month, which is required to be certified by our customer's architects or quantity surveyors. Subject to customers' satisfaction of the works, our customers will make payments based on such certificates after our submission of interim payment applications.

Inspection procedures and payment terms vary with different types of customers and contracts.

### *DTCs*

- For the DTCs entered into with the Government, quantity surveyors appointed by the Government visit our site, inspect and certify our work progress of each works order on a monthly basis.
- Depending on the work progress of each works order, up to a maximum of 70% of the value of each works order is payable by the Government. Corresponding interim payments are automatically made by the Government within 21 days from the date of certification on payment amount for our work progress through the Government's ERP system.

## BUSINESS

---

- The remaining 30% of the value of each works order is settled by the Government after submission of final bill upon completion of each works order. A joint inspection is conducted by our quantity surveyor manager and the representative of the Government on the works progress in order to certify final completion of a works order. Depending on the certification progress and the extent of variation between the actual work done by us and the original works order, it normally takes 3 to 6 months for the Government to certify final completion of each works order and prepare final accounts of the works order. The remaining balance payment is then settled by the Government within 42 days from the date of submission of final accounts in respect of each works order.

### *Non-DTCs*

- For non-DTC contracts, we apply for interim payment on a monthly basis. Quantity surveyors appointed by customers visit our site, inspect and certify our work progress by issuing a payment certificate after our application for interim payment.
- Payment terms vary with different types of customer and contracts:
  - (i) Renovation term contracts with an education institution (being one of our five largest customers during the Track Record Period),
    - Interim payment of up to a maximum of 80% of the value of each works order is payable by the customer before completion of each works order. Corresponding interim payments are made by the customers within 21 days from the date of payment certificate issued by our customers.
    - The remaining 20% of the value of each works order is settled by the customers only after final completion of each works order. Depending on the certification progress and the extent of variation between the actual work done by us and the original works order, it normally takes 3 to 6 months for the customer to certify final completion of each works order and prepare final accounts of the works order. The remaining balance payments is then settled by the customer within 21 days from the date of certification on the completion of each works order.
  - (ii) Other contracts with public and private customers
    - Interim payment of approximately 90% to 95% of the value of our works done as certified by our customers is payable by the customers before completion of the contract. Corresponding interim payments are made by the customers within a period not longer than 21 days (for public sector projects) or 35 days (for private sector projects) from the date of issue of the relevant payment certificate.
    - The remaining 5% to 10% of the value of our works done as certified by the customers is held by customers as retention money which will be released to us upon expiry of the defects liability and maintenance period which usually

## BUSINESS

---

lasts for 12 months to 24 months after completion of the relevant contracts. The amount of retention money is normally capped at an amount not exceeding 5% of the total contract value.

Our Group performs ongoing credit evaluations of our customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. Our Group continuously monitors collections and payments from our customers. Moreover, in order to minimise the credit risk, our accounts department responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade and other receivables regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. During the Track Record Period, no impairment loss on trade and other receivables is made. As at 30 June 2012, 2013 and 2014, the carrying value of trade and other receivables are approximately HK\$256.2 million, HK\$299.7 million, and HK\$259.6 million, respectively.

Our trade receivables turnover days were approximately 133.5 days, 147.5 days and 148.4 days for each of the three financial years ended 30 June 2014, respectively. For further analysis of our trade receivable turnover days, please refer to the section headed "Financial Information – Trade and other receivables" of this [REDACTED]. We closely and continually monitor the trade receivables balance and overdue balance to consider whether a reminder letter or provision for impairment of trade receivables is necessary.

### Marketing activities

Due to our long history in Hong Kong, our proven track record and our well-established relationship with our existing customers, we are able to rely on our existing customer base, reputation and customer referrals such that we do not rely heavily on promotional activities. Our customer services department is responsible for liaising and maintaining our relationship with customers.

## SUBCONTRACTING ARRANGEMENTS

### Subcontractors

For all of our contracts, we act as the main contractor and delegate works to the subcontractors under close supervision and management of our project management team. Owing to the labour intensive nature of our works, with the engagement of subcontractors, we are able to undertake projects which require different and specific work skills such as electrical work, installation, repair of fire service equipment, plumbing works, gas installation works, lifts or escalators works, etc. required for building maintenance and renovation works. Accordingly, we are able to deploy our resources in a more cost effective manner. Our subcontractors are required to observe all requirements of our main contracts and are prohibited from further subcontracting the whole of the works subcontracted to them without our consent. In exceptional circumstances, in the course of project execution for DTCs, we set up dumping facilities for sorting and disposal of waste materials generated from building maintenance and renovation works without delegating the same to our subcontractors. For the three financial years ended 30 June 2014, our revenue attributable to

## BUSINESS

---

the works orders without our subcontractors’ participation amounted to HK\$16.8 million, HK\$18.1 million and HK\$19.2 million, representing approximately 2.8%, 3.0% and 3.2% of our Group’s revenue, respectively.

### *Selection criteria of subcontractors*

We have maintained an approved list of subcontractors. Our five largest subcontractors (in terms of cost of services) during the Track Record Period have maintained business relationship with us for a period ranging from 2 years to 12 years. Most of our subcontractors are registered with the Subcontractor Registration Scheme (the “SRS”) of the Construction Industry Council. The SRS is an industry-wide initiative to improve the regulation and management of subcontracting. The Housing Authority has mandated the employment of registered subcontractors in all new building, maintenance and improvement contracts and the Development Bureau has introduced contractual provisions requiring public works contractors to engage domestic subcontractors who are either registered under the SRS or will complete their registration under the SRS before the execution of the relevant subcontracted works. Most of our subcontractors (or their proprietor, partner or director (where applicable)) are required (i) to complete at least one job within five years as a main contractor or subcontractor in the areas which they apply or to have acquired comparable experience by their proprietors, partners or directors within last five years; (ii) to be listed on one or more government registration schemes operated by policy bureaux or departments of the Government relevant to the trades and specialties for which registration is sought; (iii) to be employed by a registered subcontractor for at least five years with experience in the trade/specialty applying for and to have completed all the modules of the project management training series for subcontractors (or equivalent) conducted by the Construction Industry Council; or (iv) to be registered as registered skilled worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade/specialty with at least five years’ experience in the trade/specialty and to have completed the senior construction works trade management course (or equivalent) conducted by the Construction Industry Council. Our approved list of subcontractors is reviewed and updated on an ongoing basis by our administration director, project director and safety director, with reference to the performance assessment of each subcontractor on an annual basis. Generally, we select subcontractors based on their technical expertise, financial background, management structure, past performance, safety record, records of compliance with health, safety and environmental law, rules and regulations and reputation. For certain public sector projects involving electrical and mechanical works, fire services installation, lift tower installation works, etc., the Housing Authority may reserve its rights to nominate a subcontractor that meets its quality standard requirements. Although we do not have any exclusive arrangements with subcontractors, we do not foresee any difficulties in arranging replacement of subcontractors should it become necessary.

## BUSINESS

### *Major subcontractors*

During the Track Record Period, details of our five largest subcontractors and the amounts of their subcontracting fees are summarised as follows:

	Approximate number of years of relationship	For the year ended 30 June		
		2012 HK\$'000	2013 HK\$'000	2014 HK\$'000
Subcontractor A <i>(Note 1)</i>	6	148,197	104,392	143,301
Subcontractor B <i>(Note 1)</i>	12	75,840	79,397	51,554
Subcontractor C <i>(Note 1)</i>	7	33,446	30,666	47,695
Subcontractor D <i>(Notes 1 and 2)</i>	3	45,070	40,816	46,102
Subcontractor E <i>(Note 1)</i>	11	84,817	60,762	45,968
Subcontractor F <i>(Note 1)</i>	5	62,520	35,347	24,331
Subcontractor G <i>(Note 3)</i>	6	55,097	44,839	39,804
Subcontractor H <i>(Note 1)</i>	2	–	53,653	44,904

*Notes:*

- Each of these subcontractors is a private company incorporated in Hong Kong and a subcontracting service provider in respect of the building maintenance and renovation projects and construction engineering projects.
- Subcontractor D is Chung Tat, a company incorporated in Hong Kong and owned as to 60% by Faithful Construction Limited, which is in turn beneficially owned by our Controlling Shareholders, i.e. as to approximately 33.33% by Mr. Chan Lo Kin (an executive Director), approximately 33.33% by Mr. Liu Su Ke (a non-executive Director), approximately 18.33% by Mr. Kan Yiu Keung (an executive Director) and approximately 15.00% by Mr. Kan Man Hoo, and Chung Tat is therefore a connected person of our Company.
- Subcontractor G is a sole proprietorship established in Hong Kong and a subcontracting service provider in respect of the building maintenance and renovation projects and construction engineering projects.

During the Track Record Period, our Group's subcontracting fees amounted to approximately HK\$545.5 million, HK\$529.2 million and HK\$514.9 million, respectively, representing approximately 96.2%, 95.3% and 94.5% of our Group's total costs of services respectively. During the same period, our Group's largest subcontractor accounted for approximately 26.1%, 18.8% and 26.3% of our Group's total cost of services and our Group's five largest subcontractors accounted for approximately 75.2%, 61.8% and 61.4% of our Group's total cost of services, respectively.

Subcontracting fees represent direct costs paid or payable to our subcontractors to carry out building maintenance and renovation works which include wages for subcontractors' employees and procurement cost of materials and equipment, which are sourced through our subcontractors.

## BUSINESS

---

Save for Chung Tat which is a connected person of our Company as disclosed above, our five largest subcontractors during the Track Record Period are independent third parties. None of our Directors or their associates or any Shareholder holding more than 5% of our Company's issued share capital had any interests in the five largest subcontractors as at the Latest Practicable Date.

We do not have any material dispute or claim with any of the subcontractors during the Track Record Period.

### **Terms of the subcontracting agreement**

We generally enter into subcontracting agreements with our subcontractors, the salient terms of which are set out below:

- Rights and obligations of the subcontractor and our Group under the project – in particular, a subcontractor is required to comply with the relevant terms and perform its works in accordance with the specifications under the main contracts on a back-to-back basis;
- Subcontracting fee and settlement term – Subcontracting fee may represent a fixed sum or a percentage of the contract value of our main contract or works orders issued by our customers unless there is a variation order or additional works to be performed by the subcontractors with our prior consent. We normally pay our subcontractors within seven days after we receive payment from our customers pursuant to the terms of the main contract. In certain circumstances, for the purpose of relieving subcontractors' cashflow and ensuring smooth operation of the projects, upon application by the subcontractors, we make advance payment to the subcontractors who are in needs of funds to pay for workers' wages and purchase materials to carry out their works. We consider subcontractors' application for advance payment on a case-by-case basis with reference to the works done by the subcontractors, work progress of the project and the performance of the subcontractors. The advances made to subcontractors before services are treated as other receivables in our Company's financial statements. For the three financial years ended 30 June 2012, 2013 and 2014, our Group has made advance payment to subcontractors in the amount of HK\$17.4 million, HK\$22.5 million and HK\$14.5 million, respectively. The advances will be offset with the subsequent subcontracting fee payable to the subcontractors when services are provided by the subcontractors. The advances made to subcontractors were non-interest bearing;
- The duration of the subcontracting agreement is the same as the duration of the main contract between us and our customers. We may terminate the subcontracting agreement if: (i) subcontractor fails to carry out the works in accordance with the terms of the main contract; (ii) subcontractor further subcontracts all the works to a third party without our consent; (iii) subcontractor delays carrying out the works without reasonable cause; and (iv) subcontractor repeatedly fails to comply with safety and other relevant laws, rules and regulations;

## BUSINESS

---

- Undertaking by subcontractor to indemnify our Group against any loss, expense or claim arising from their failure to comply with subcontracting agreement by the subcontractor and/or its employees;
- Subcontractor is responsible for carrying out the works in accordance with all relevant safety, health and environmental laws, rules and regulations. In the event of any non-compliance, the relevant subcontractor bears all the liabilities, losses, costs and expenses resulting from such non-compliance;
- Meetings are held with the relevant subcontractor on a monthly basis to review the progress of the projects and to resolve any issues encountered during the project implementation stage;
- Subcontractor may be required to open a bank account designated for the project with Sing Fat Construction as one of the authorised signatory for the purpose of monitoring project expenses (including payment of subcontracting fees, use of advance payment to subcontractors, payments to materials suppliers and payment of wages, etc.), ensuring systematic cash flow and tightening control over project budget;
- The amount of retention money (if any) to be retained by us pending expiry of the defects liability period as stated in the main contract; and
- The amount of liquidated damages as may be payable by subcontractor in the event of a delay in completion of the projects.

### **Purchasing arrangements**

Our subcontractors are responsible for purchasing the materials and equipment required for the projects. Materials required for our projects typically include wooden materials, tiles, materials for plumbing, sanitary fitting and water proofing, metal and steel materials, louvre materials, cement and concrete materials and paint materials. Our subcontractors enter into supply contracts with suppliers for supply of these materials. Subcontracting fee payable to our subcontractors include the costs of materials and equipment required for the projects. Our subcontractors are responsible for settlement of payment with the suppliers for the materials purchased. As our subcontractors are delegated to source materials and equipment for the projects, our Group does not have any direct suppliers. That said, we supervise and manage our subcontractors during the procurement process. Our quality manager coordinates with the subcontractors to agree on quantity, price, size and type of the materials required for the project and obtain catalogues, samples and quotations for the materials required. Proposed materials and samples (when required) are required to be submitted to our quality manager and our customers for approval prior to purchasing. All materials ordered are sent directly to the relevant site for inspection by our site agent and foreman before utilisation.

In most cases, our subcontractors are required to source materials from our approved suppliers, who are independent third parties, to ensure quality of the materials used. These approved suppliers are based in Hong Kong. Our project director, with the assistance of our quality manager, keeps an approved list of materials suppliers and assesses their overall

## BUSINESS

---

performance with reference to product quality, safety standards, environmental standards, and timeliness of delivery, on a regular basis. We maintain stable relationship with these materials suppliers through our subcontractors for over 10 years. We therefore do not foresee any material difficulties to source materials in the future.

### **Control over subcontractors**

We adopt the following internal control measures to (i) control our subcontractors' quality of work, (ii) control our subcontractors' compliance of occupational health safety, environmental rules and regulations, and (iii) control and manage our risks under the Employment Ordinance and Employees' Compensation Ordinance:

#### ***Control over subcontractors' work quality and performance***

Furthermore, in order to monitor the performance of the subcontractors and to ensure that the subcontractors comply with the requirements of the main contract and our quality standards, we have put in place the following internal control measures:

(a) *Management structure between our project management team and our subcontractors*

For each project, our project director, administration manager and project/construction manager are responsible for deployment of resources and control of subcontractors. Our site agent, who assists the project/construction manager in the overall control of site works, is also responsible for monitoring the performance of direct labour and subcontractors. Our foreman assists the site agent for controlling and monitoring the site works, and shall be delegated with authority to give instruction to workers and subcontractors for carrying out site works in compliance with contractual specifications and our quality standards. Our safety manager and safety officer organises all safety training, promotes the workers' and subcontractors' safety awareness and compliance on site. Subcontractors are required to designate a responsible person to monitor the quality and safety of their works during the project period.

(b) *Prevention of unauthorised multi-level subcontracting*

It is our policy to prohibit a subcontractor from further sub-contracting the whole of the subcontracted works to third party without our consent as this will adversely affect our management over the subcontractors' workforce and the quality of workmanship. In the event that a subcontractor is in breach of such restriction, we are entitled to terminate the subcontracting agreement and the subcontractor concerned is required to indemnify us against any loss and damages resulting from such breach.

(c) *Constant monitoring and inspection*

Our quality manager, foreman and safety supervisor conduct daily inspection on the work performance of the subcontractors and their employees and random inspection or surprise checks may be conducted by our site agent on an ad hoc basis. In addition,

## BUSINESS

---

our site agent, with the assistance of the foreman, collects information to report on the work progress of subcontractors on a bi-weekly basis for review by our project/construction manager who then decides whether any follow-up action is required.

*(d) Control over project expenses and payments*

Under the terms of the subcontracting agreement, our subcontractors are required to open a bank account on project basis with Sing Fat Construction as one of the authorised signatory for the purpose of monitoring project expenses (including payment of subcontracting fees, payments to materials suppliers and downstream subcontractors and wages paid to employees of subcontractors, etc.), ensuring systematic cashflow and tightening control over project budget during the project period. In particular, in order to ensure the subcontractors pay their employees and downstream subcontractors without unjustified delay, any release of payment from us to our subcontractors is subject to their submission of evidence, endorsed by their downstream subcontractors, showing that their downstream subcontractor's outstanding payment has been settled and that wages of employees of subcontractors have been fully paid.

*(e) Monthly review on our subcontractors' work progress*

Monthly review meeting is held and chaired by our project/construction manager or quality manager with the participation of the management and site representatives of the subcontractors. During the review meeting, we review work progress for the past month, discuss site safety and environmental compliance issues, customers' complaints and feedback. We also discuss issues regarding non-conforming works, defects or other faults arising from works performed by our subcontractors during the project period so that our project/construction manager can investigate and take appropriate corrective action and implement measures to prevent re-occurrence of similar incidents. Our project/construction manager also reviews the causes of non-conformance and complaints, identifies the responsible parties or subcontractors and provides corresponding instructions to them to rectify and make good the defects or non-conforming work accordingly. The site agent will then implement appropriate action, enforces and supervise the respective subcontractors to carry out the rectification works to the required standard. After the remedial and rectification works have been completed, our project/construction manager reports back to the customers or their representative for inspection and confirms with the customers for satisfactory completion of the respective work.

*(f) Indemnity from our subcontractors for substandard work performance*

In some cases, when a subcontractor fails to rectify the works to the required standard under the contract, our customer may deduct the cost from payments to our Group from the retention money retained by our customers. In such case, the relevant subcontractor would then be held fully liable to indemnify us against any loss and expense incurred and such sum will be deducted from our payment to the subcontractor accordingly. During the Track Record Period, we did not receive claim from any of our customers for unsatisfactory work performed by our subcontractors.

## BUSINESS

---

*(g) Performance assessment of our subcontractors*

We conduct annual assessment on the quality of our subcontractors. Our administration director, project director and safety director, appraise the quality of the subcontractors based on their performance in previous projects with reference to the performance indicators such as their technical expertise, financial background, management structure, safety record, records of compliance with healthy, safety and environmental law, rules and regulations and reputation. We will remove those subcontractors who repeatedly fail to meet our requirements from our approved list. For Government projects, we conduct quarterly assessments on performance quality of subcontractors and a quarterly report is required for submission to the Housing Authority.

***Control over subcontractors' compliance of occupational health, safety, environmental rules and regulations***

The implementation of the following measures for monitoring subcontractors' compliance with occupational health, safety and environmental laws, rules and regulations is overseen by our safety committee which is chaired by Mr. Liu Winson Wing Sun, our executive Director and safety director. For details of the composition of our safety committee, please refer to the paragraph headed "Occupational health and safety" of this section below.

*(a) Briefing sessions prior to commencement of project*

A series of briefing sessions is conducted by our safety officer to the representatives of the subcontractors and their workers prior to the commencement of the project implementation stage. The briefing sessions cover topics such as our safety policy, quality policy, project quality plan and environmental management plan. The purpose of these briefing sessions is to highlight the respective policies, plans, objectives and guidelines to the subcontractors, provide them with adequate and clear information and draw their attention to the importance of strict compliance and observance of occupational health, safety and environmental laws and regulations.

*(b) Safety inspection and safety assessment*

Our safety supervisors conduct daily inspection on the subcontractors' compliance of safety and environmental measures, progress and potential risk to the general public. Our safety supervisors may conduct safety inspection on an ad hoc basis. In case of non-compliance of our safety guidelines by a subcontractor, we issue warning letter to relevant employees and the subcontractors concerned. If a major safety deficiency is found, a work suspension notice may be issued to relevant employees and the subcontractor concerned until the deficiency is rectified to the satisfaction of both the project/construction manager and our safety officer. In extreme case, we may terminate the relevant subcontracting agreement if the subcontractor is found to be in repeated non-compliances with safety and other relevant laws and our safety guidelines in which case such subcontractor will be liable to indemnify us against any loss and damages resulting from such non-compliances. Our safety officer conducts appraisal on

## BUSINESS

---

compliance of safety requirement on the part of our subcontractors' workers on a quarterly basis to monitor their performance on occupational health of safety compliance.

*(c) Indemnity from the subcontractors for non-compliance of safety regulations*

For any criminal charges against our Group due to non-compliance of applicable laws and regulations in relation to safety, health and environment by the subcontractors' employees, we are entitled under the terms of the subcontracting agreement to claim against our Group's subcontractors for any losses, liabilities, costs and expenses resulting from such criminal charges or convictions.

*(d) Ongoing safety training*

With an aim to further promoting safety culture and to ensuring the compliance of the relevant safety rules by subcontractors, training courses are arranged by our safety committee to offer training to employees of subcontractors on their safety and environmental awareness and assist them to correct unacceptable or dangerous misbehaviour at construction sites. We also provide internal safety training and/or external safety training relating to the latest safety laws, rules and regulations of the construction industry to our employees. For details of our training provided to our employees as well as employees of our subcontractors, please refer to the paragraph headed "Occupational health and safety – safety training and promotion" of this section. A copy of safety manual is displayed on sites in prominent places accessible to all subcontractors and their employees. We consider that such approach is effective in controlling the work misbehaviour of the employees of subcontractors and enhance their safety awareness.

### ***Control over our risks under the Employment Ordinance and Employees' Compensation Ordinance as main contractor***

#### *Employment Ordinance*

For any action regarding claims for outstanding wages instituted by the employees of our subcontractors, our Group, as the principal contractor, are invariably named as one of the defendants due to our liability to settle the outstanding wages on the direct employer's behalf pursuant to section 43C of the Employment Ordinance even without any fault on our part. Such payment of wages is recoverable from our subcontractors pursuant to section 43F of the Employment Ordinance. To monitor our subcontractors' compliance with the Employment Ordinance and avoid non-payment of wages by our subcontractors to their employees, we adopted the following measures on monitoring wage payments:

- (a) Our project/construction manager and site agent are responsible for handling complaints from all workers (including subcontractors' employees) for outstanding wage claims. We take a pro-active approach in identifying potential wage claim at early stage. Enquiries or complaints hotline is in general displayed at the construction sites in prominent places such that wage disputes could be resolved without resort to court procedures.

## BUSINESS

---

- (b) In order to avoid dispute between our subcontractors and us in respect of amount of wages paid to employees of subcontractors, we maintain an attendance record of all site workers (including subcontractors' employees) on daily basis by an electronic system installed at sites or a logbook supervised by our foreman.
- (c) After we make a payment to our subcontractors on a pay day, we require payment advice or confirmations from our subcontractor evidencing that they paid their employees punctually. In some cases, we may require our subcontractors to pay wages to their employees on site in the presence of our site agent as a witness to make sure that they pay their employees punctually. Furthermore, pursuant to the terms of our subcontracting agreements, we reserve our rights to pay the wages of the subcontractors' employees on the subcontractors' behalf in which case we are entitled to deduct such paid amount from the subcontracting fees payable by us to such subcontractor.

### *Employees' Compensation Ordinance*

Pursuant to section 24 of the Employees' Compensation Ordinance, when an employee of a subcontractor is injured at work, the principal contractor shall be liable for any claim of compensation made by the injured employee under the Employees' Compensation Ordinance. The main contractor may take action to recover from the subcontractor any payment which that subcontractor is required to make. Therefore, for any action regarding personal injuries instituted by the employees of our subcontractors, our Group, as the main contractor, would invariably be named as one of the defendants due to our liability to settle the claim of compensation pursuant to section 24 of the Employees' Compensation Ordinance even without any fault on our part. Such payment is recoverable from our subcontractors pursuant to section 24 of the Employees' Compensation Ordinance. Since our Group is required to take out employee's compensation insurance policy, the payment will be ultimately recoverable from the insurance companies. In the event that the insurer refuses to cover such liability, our subcontractors are required to indemnify us for such liability pursuant to the subcontracting agreement.

Pursuant to our safety policy, our subcontractor must inform our safety officer immediately upon the occurrence of any accident involving subcontractors' employees or any third party arising from the execution of the works. Details of the injured person must be submitted to our site office within three days after accident to make proper record for any possible claims under Employees' Compensation Ordinance. Subcontractors are required to ensure that all claims conform to the requirements of the Employees' Compensation Ordinance and relevant conditions of our insurance policy. Please refer to the paragraph headed "Occupational health and safety – safety inspection, risk assessment and accident reporting" for details of our policy on accident reporting.

In view of the above measures currently in place, our Directors are of the view, and the Sponsor concurs, that there are adequate and effective measures to control our subcontractors' quality of work, control our subcontractors' compliance of occupational health safety, environmental rules and regulations, and control and manage our risks under the Employment Ordinance and Employees' Compensation Ordinance.

## BUSINESS

### AWARDS AND ACCREDITATION

In recognition of our outstanding performance and quality of work, our Group has received the following awards or certificate from different departments of the Government and professional accreditation organisations:

Year of grant	Description	Awarding organisation/ institution
<i>Certification for compliance with ISO/OHSAS requirements</i>		
2008 <i>(Notes 1, 4)</i>	Certificate for compliance with the requirements of OHSAS 18001: 2007 occupational health and safety management systems specification applicable to building activities to keep, restore and improve the facilities of buildings and surroundings, construction of buildings and demolition of building with demolition design	HKQAA
2007 <i>(Notes 2, 4)</i>	Certificate for compliance with the requirements of ISO 14001: 2004 environmental management system standard applicable to building activities to keep, restore and improve the facilities of buildings and surroundings, construction of buildings and demolition of building with demolition design	HKQAA
1993 <i>(Notes 3, 4)</i>	Certificate for compliance with the requirements of ISO 9001: 2008 quality management system standard applicable to building activities to keep, restore and improve the facilities of buildings and surroundings, construction of buildings and demolition of building with demolition design	HKQAA
<i>In recognition of our Group’s quality service</i>		
2013	Quality Public Housing Construction & Maintenance Awards 2013 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority
2012	Quality Public Housing Construction & Maintenance Awards 2012 <i>Outstanding Maintenance &amp; Improvement Project – Bronze Award</i>	Housing Authority

**BUSINESS**

<b>Year of grant</b>	<b>Description</b>	<b>Awarding organisation/ institution</b>
2011	Quality Public Housing Construction & Maintenance Awards 2011 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority
2010	Quality Public Housing Construction & Maintenance Awards 2010 <i>District Term Contract Category: Outstanding Contractor Award – Bronze Award</i>	Housing Authority
2009	Quality Public Housing Construction & Maintenance Awards 2009 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority
2008	Quality Public Housing Construction & Maintenance Awards 2008 <i>District Term Contract Category: Outstanding Contractor Award – Gold Award</i>	Housing Authority
2007	Quality Public Housing Construction & Maintenance Awards 2007 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority
2005	Quality Public Housing Construction & Maintenance Awards 2005 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority
2004	Quality Public Housing Construction & Maintenance Awards 2004 <i>District Term Contract Category: Outstanding Contractor Award – Gold Award</i>	Housing Authority
2003	Quality Public Housing Construction & Maintenance Awards 2003 <i>District Term Contract Category: Outstanding Contractor Award – Gold Award</i>	Housing Authority
2002	Excellent Estate Maintenance Services Award 2002 <i>District Term Contract Category: Outstanding Contractor Award – Silver Award</i>	Housing Authority

---

## BUSINESS

---

<b>Year of grant</b>	<b>Description</b>	<b>Awarding organisation/ institution</b>
<i>In recognition of our Group’s safety practice</i>		
2011 – 2012	Construction Industry Safety Award Scheme 2011/2012 <i>Renovation and Maintenance Works</i> ( <i>Tuen Mun District</i> ) – <i>Silver Award</i>	Labour Department
2007 – 2008	Construction Industry Safety Award Scheme 2007/2008 <i>Renovation and Maintenance Works</i> ( <i>Shatin District</i> ) – <i>Bronze Award</i>	Labour Department
1997	Site Safety Campaign 1997 <i>Best Maintenance Works</i> <i>Contractor</i>	Housing Authority
1997	Site Safety Campaign 1997 <i>Best Maintenance Works</i> <i>Site: Maintenance and Improvement Works</i> ( <i>Enhanced CARE</i> ) at <i>Fuk Loi Estate</i> – <i>Bronze</i> <i>Award</i>	Housing Authority

*Notes:*

1. Sing Fat Construction was first accredited with OHSAS 18001 compliance certification in 2008 which is renewed once every three years. The current certificate will expire on 26 November 2014. Our Directors did not see any legal impediment or factors that prevent to renewal of this accreditation.
2. Sing Fat Construction was first accredited with ISO 14001 compliance certification in 2007 which is renewed once every three years. The current certificate will expire on 28 August 2016.
3. Sing Fat Construction was first accredited with ISO 9000 compliance certification in 1993 which is renewed once every three years. The current certificate will expire on 9 June 2015.
4. The accreditation body conducts an external audit to assess the relevant management system is in conformity of the standards in place every three years. Such external audit is normally conducted before the expiry of the relevant ISO certificate. Upon satisfaction in regards to the relevant management system, a renewal certificate will be issued.

## BUSINESS

---

### QUALITY ASSURANCE

To maintain consistent quality services for our customers, we have established a quality assurance system which is certified to be in compliance with the requirements of ISO 9001:2008 and ISO 14001:2004, respectively. The primary objective of our Group is to (i) fulfil the needs of our customers by providing quality services that meet both contractual and statutory requirements; and (ii) continuous improvement in quality, safety and customers' service. From tender to post-contract stage, we clearly define objectives and directions, utilise resources in a planned, systematic, efficient, safe and cost effective manner. Compliance with our quality assurance requirements is mandatory for our staff and subcontractors. Through continuous evaluation, assessment and review of each department's management functions, we believe our quality management system has enhanced the management and operational quality and ability of both our Directors, senior management and our site staff. Our quality assurance system is overseen by our administration director with the support of our quality department.

Our quality assurance team comprises four quality managers who are responsible for the day-to-day quality assurance under the supervision of Mr. Chan Lo Kin, Mr. Kan Yiu Keung and Mr. Liu Winson Wing Sun, being our executive Directors, and our administration director, project director and safety manager, respectively. For details of the qualifications and experience of our administration director, project director and construction manager, please refer to the section headed "Directors, Senior Management and Staff" of this [REDACTED].

Our quality assurance measures are summarised below:

(a) *Quality control plan*

Prior to commencement of each project, our quality manager prepares quality control plan for individual project for approval by our administration director, project director and project/construction manager before submission to our customers. Such quality control plan sets out customers' requirements and our quality standards with reference to performance indicators such as adequacy to follow the customers' specification of materials and workmanship, work progress, response to customers' instructions, customer services, site safety, site tidiness, control of nuisance and environmental management. At the outset of the project implementation, our project/construction manager holds a project initiation meeting with our site agent, foreman and subcontractors to discuss the execution requirements of the quality control plan, assign quality control and assurance responsibilities on materials ordering, works execution and inspection during the project to ensure they understand the required quality standards and requirements.

(b) *Constant monitoring and inspection*

We closely monitor the quality of purchased materials and our subcontractors' workmanship standard. Our quality managers coordinate with our subcontractors to agree on quantity, size and type of the materials required for the project to make sure the materials meet our customers' requirements prior to ordering. Proposed materials

## BUSINESS

---

and samples (when required) are required to be submitted to our quality managers and our customers for approval prior to purchase. All materials ordered are sent directly to the relevant site for inspection by our site agent and foreman before utilisation. Furthermore, we closely supervise our subcontractors and monitor their workmanship standards and performance to ensure that our subcontractors comply with the contractual specifications under the main contract and our quality standards. Our quality manager, foreman and safety supervisor conduct daily inspection on the work performance of the subcontractors and their employees and random inspection or surprise checks may be conducted on an ad hoc basis. Our project/construction manager and quality managers conduct monthly meeting with our subcontractors to review work progress and ensure that the project is executed on schedule. For details of our control measures over our subcontractors, please refer to the paragraph headed “Subcontracting arrangements – Control over subcontractors” of this section. Prior to inspection by our customers, our site agent conducts inspection on all works completed to ensure that the work completed conforms to the specifications and quality standards set out in the contract.

*(c) Customer service*

To improve our quality of service, in the course of project execution, we offer customer services to our customers to handle and resolve complaints and non-conformities and consider preventive actions to prevent re-occurrence of similar incidents in the future. In handling customers’ complaints and feedback, our customer service department follows our “4R” procedures (i.e. receiving, recording, responding to and reviewing complaints in a timely manner). We operate a complaint telephone hotline on site manned by our public relations representatives throughout the project period from 9 a.m. to 6 p.m. and from Monday to Saturday (excluding public holidays) to handle and receive complaints from public that may arise in the course of our project execution. Complaints can also be lodged by way of email, complaint card or written complaint form. We endeavour to respond to such complaints and enquiries within 24 hours and in case of emergency, within an hour. Such complaints and enquiries are reported to our project/construction manager and quality manager who then coordinate with our safety officers to consider appropriate corrective and preventive actions to be taken. Furthermore, we conduct customers’ survey on a regular basis to gather customers’ feedback for each project on our service performance of individual project. In addition, as part of our customer service, our staff and subcontractors’ employees are required to attend service manner training on personal behaviour, work attitude, discipline, politeness and courtesy to our customers and third parties on sites.

*(d) Management on occupational health, safety and environmental protection*

As part of our quality assurance, we commit to providing a safe and environmental friendly working environment. We operate a safety management system to ensure our Group’s compliance with the relevant safety requirements and standards. We adopt environmental management plan to ensure proper management of

## **BUSINESS**

---

environmental protection and compliance of environmental laws and regulations in the course of project execution. Please refer to the paragraphs headed “Occupational health and safety” and “Environmental protection” of this section for details.

### *(e) Management review*

We consider that it is imperative to improve our quality management system through constant evaluation and assessment. To this end, we hold management review meeting on an annual basis, with the presence of our core management team including our administration director, project director, safety director, quality managers, project/construction managers, quantity surveyor managers, public relations managers and construction engineers, to evaluate the adequacy and effectiveness of our quality, environmental, occupational health and safety policy and objectives, effectiveness of our management operation by reference to internal and independent management system audit reports, reports on safety audits, reports on non-conformity, corrective and preventive actions, reports on complaints and feedbacks from customers and other external parties, reports on compliance of the statutory requirements relating to occupational health, safety and environmental protection and reports on performance of subcontractors and suppliers. The management review meeting will also discuss and initiate improvement actions to ensure that our quality policy objectives can be met.

In recognition of our quality service, we have received a number of awards from the Housing Authority. Further details are set out in the paragraph headed “Awards and accreditation” of this section above.

There was no significant delay in the delivery of our projects and no major complaints from customers regarding quality of our works during the Track Record Period and up to the Latest Practicable Date. We attribute our proven track record to our quality of services and our effective quality assurance measures under our quality management system.

## **OCCUPATIONAL HEALTH AND SAFETY**

We have adopted an occupational health and safety system as managed by our safety department for the benefit of our employees and our subcontractors’ employees. We are committed to providing a safe and healthy working environment. It is also our concern not to put the general public in hazards. Our system follows international standards and is certified to be in compliance with the requirements of OSHAS 18001 and ISO 14001 since 2008 and 2007, respectively. We implement the following measures to ensure workplace safety:

### *Safety committee*

Our safety committee is formed at corporate level and headed by Mr. Liu Winson Wing Sun, our executive Director and safety director, with two safety managers, seven safety officers and eight safety supervisors who are our full-time employees as at the Latest Practicable Date. Most of them are either registered safety officers registered under the Factories and Industrial Undertakings (Safety Officer and Safety Supervisor) Regulations or attained diploma in the occupational health and safety discipline. For details of the

## BUSINESS

---

qualification and experience of Mr. Liu Winson Wing Sun, our safety director, please refer to the section headed "Directors, senior management and staff" of the [REDACTED]. Safety committee meeting is held on a monthly basis for the purpose of setting strategic guidelines for our safety department to (i) manage occupational health and safety measures relating to our operation; and (ii) monitor the implementation of safety management for our Company. In addition to our safety committee, we also set up safety sub-committee at site level which consists of our site agent, quality manager, foreman, safety officer, safety supervisor and the authorised representative of subcontractors for individual projects. Site safety meeting is held on a monthly basis. The role of the safety sub-committee is to monitor the implementation of on-site safety management with the participation of the subcontractors' representatives on project basis.

### *Safety inspection, risk assessment and accident reporting*

Prior to commencement of each project, our safety officer prepares safety plan for individual project for approval by our safety director and project director before submission to our customers. For the daily operation of our project, our safety supervisors carry out daily safety inspection to monitor our site safety. Weekly inspection is also conducted by our project execution team with the participation of our safety officers, safety supervisors, site agents and foremen and a weekly report is prepared to evaluate the degree of the site work's compliance with safety regulations, review the adequacy of safety measures on site and take immediate steps to remedy any defects or unsafe conditions and practices observed. Our safety officer also conducts safety risk assessment on a quarterly basis which forms an integral part of safety management and accident prevention. The aim of risk assessment is to monitor site workers' performance on occupational health and safety compliance and identify significant risks arising from work activity on site. Our safety officer is informed of the planned work programme and actual work progress so that he can conduct risk assessment and advise site agent in taking preventive control measures in securing persons from risk. In routine inspections, our safety supervisors use site safety inspection checklist to record our safety compliance. Reports on the findings of the safety inspection are completed as soon as practicable after the inspection. Such report is distributed to our safety director, safety officers and project manager with copies being provided to our customers. All checklist and inspection reports comply with the requirements of all statutory safety regulations shall incorporate a follow up procedure to ensure that any defects identified must be promptly and satisfactorily rectified, and reported to our safety committee accordingly. In addition, for Housing Authority contracts, depending on the scale of the contract, the Housing Authority conducts safety audits or safety reviews on project basis once every three months to ensure that we comply with the safety requirement prescribed by the Housing Authority during project execution.

We adopt the following procedures for recording, handling and reporting on accidents:

- For accidents that lead to incapacity of more than three days, a completed statutory Form 2 (a prescribed form in the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)) in duplicate copies together with the supplementary information including particulars of the accident, the relevant worker's salary and insurance covered ("Form 2") will be submitted to the Labour Department within 14 days in accordance with section 15 of the Employees'

## BUSINESS

---

Compensation Ordinance. For minor accidents that lead to incapacity of not more than three days, we will report to the Labour Department using Form 2B (a prescribed form in the Employees’ Compensation Ordinance) within 14 days.

- In the event of dangerous occurrence (as defined in the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)) or fatal accident in Hong Kong, we will notify the Labour Department and submit the Labour Department’s standard “Dangerous Occurrence Report Form” within 24 hours. Our safety officers will also complete the investigation on the accident/incident within the same timeframe. Within seven days, we will also submit Form 2 to the Labour Department in case of injury. A detailed investigation will be completed by our safety officers within seven days.

### *Safety training and promotion*

The provision of adequate safety training for all levels of personnel (including the subcontractors’ employees) plays a vital role in effective accident prevention. We implement a suitably structured training programme for all personnel employed on site. Prior to commencement of each project, our safety officer provides induction safety training and safety toolbox coaching to all the workers on site on all relevant site safety regulations when they first enter the site. Furthermore, our safety managers also prepare quarterly training programme that requires site personnel to attend safety training on safety rules and regulations on a weekly basis. Safety training may be held on ad hoc basis in the event of occurrence of accident to provide specific training on prevention of occurrence of similar accidents in the future. These trainings focus on different trades and activities and enhance occupational health and safety awareness. Control measures on high-risk activities are also emphasised. Topics of our safety training typically cover the following:

- safe operation and maintenance of plants, machineries and equipment;
- provision, use and maintenance of personal protective equipment;
- safety procedures for working at height;
- provision, use and maintenance of safe access;
- fire precautionary measures;
- safe handling and movement of materials;
- safety procedures for chemical processes and for the handling, transporting and storage of chemicals;
- safety procedures for emergency; and
- duties and procedures for reporting hazards, incidents, accidents and diseases. good housekeeping of workplaces.

## BUSINESS

---

All training records and attendance are properly documented for submission to our customers as part of our quality assurance.

We consider that the provision of adequate promotion of safety information for all levels of personnel is crucial for effective accident prevention. Various measures, such as poster campaigns and distribution of safety information sheets and guides to our site staff are adopted in order to promote their safety awareness and develop a safety culture on sites. All relevant warning signs, emergency and rescue procedures, notices and placards are displayed at strategic locations in offices, workshops, welfare facilities, and in the construction areas. Copies of the relevant occupational safety and environmental legislation and the related guidelines are displayed in both English and Chinese whenever available in every site office. To further promote a safety culture, we implement an award scheme for grant of award to “the best worker of the month” in recognition of his or her performance on occupational health and safety compliance.

### *Regular surveillance audits by the HKQAA and internal safety audit*

We are certified to be in compliance with the standards of OHSAS 18001:2007 (Occupational health and safety management systems) by HKQAA. According to the regulations of HKQAA, the relevant certification shall be renewable (subject to compliance with HKQAA regulations) every three years, and surveillance audits will be conducted at least once every year of certification. HKQAA conducts a review of our management systems generally every six months. After receiving the report from HKQAA, or if there are any updates based on the assessment of our safety committee, we will inform our staff and particularly the site agents and foremen who are responsible for checking proper implementation of new safety protocols by staff on-site. If non-conformity is discovered in the course of the audit, we will be required to adopt corrective and preventive measures within the timeframe agreed upon between the HKQAA auditor and us. Our Directors confirmed that material deficiencies in relation to workplace safety has been identified by the HKQAA surveyor and our safety management system continually fulfilled the OHSAS 18001 certification requirements in the audit reports.

In addition to the external audit conducted by HKQAA, we also engage an independent occupational health and safety auditor (the “Internal OHS Auditor”), who is a registered safety auditor, for the purpose of conducting internal audit on our Group’s safety management system on a half-yearly basis in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulations. In the course of the internal safety audit, our Internal OHS Auditor (i) conducts physical inspection on selected sites to check whether our Group’s established safety management system is developed, monitored, organised and implemented in accordance with the Factories and Industrial Undertakings (Safety Management) Regulations and the Code of Practice on Safety Management issued by the Labour Department and whether the statutory safety regulations are complied with; (ii) conducts interview with selected personnel in selected projects; (iii) obtains documents for review to assess the adequacy and effectiveness of our Group’s safety management system; and (iv) suggests areas of improvements and recommendations on our safety management system. Upon completion of the safety audit, the internal audit report will be submitted to our safety committee for review and then submitted to the Labour Department and our customers. Our Directors confirmed that no material deficiencies in

## **BUSINESS**

---

relation to workplace safety has been identified by the OHS Auditor and our safety management system had continually fulfilled the safety regulations under the Factories and Industrial Undertakings Ordinance in all material respects.

It is also noteworthy that in recognition of our safety policy, we have received a number of awards from the Housing Authority and the Labour Department. Please refer to the paragraph headed “Awards and accreditation” of this section for further details.

### **ENVIRONMENTAL PROTECTION**

We are committed to promoting environmental protection and carrying out our corporate responsibility to our society. We are particularly conscious of the need to satisfy our customers, operate our business efficiently whilst at the same time protect the environment. To this end, we adopt environmental management plan to ensure proper management of environmental protection and statutory compliance as part of our project execution. Our environmental management plan is also modified to suit the specific need and contractual specifications for different projects in accordance with the customers’ requirements and our environmental management plan and objectives set by our administration director and project manager. Our environmental management system is certified to be in compliance with the requirements of ISO 14001:2004 since 2007. For daily operation of our project, our safety committee is responsible for monitoring environmental compliance issues in accordance with environmental management plan for each project. Our project manager and site agent work with our safety officer and safety supervisor to monitor and evaluate the degree of the site work’s compliance with environmental rules and regulations, review the adequacy of environmental protection measures on site and take immediate steps to remedy any defects or conditions that may cause harm to the environment and nuisance to the general public. We also gather our customers’ feedbacks to modify and improve our environmental management practices to enhance our quality of services.

Specifically, we adopt the following measures to ensure proper management of environmental protection and compliance of environmental laws and regulations in the course of project execution:

#### **Waste disposal**

We have waste management plan drawn up for individual projects in accordance with the contractual specifications and the standard of our environmental management plan. For each project, in accordance with the Waste Disposal Ordinance and its subsidiary regulations, we apply for billing account for disposal of construction wastes and materials. Where necessary, we apply to the Environmental Protection Department for registration as a chemical waste producer for projects generating chemical wastes (such as surplus painting materials, lubricant oil from diesel plants, etc.). Prior to waste disposal, we operate our own sorting facilities to separate inert construction waste materials from non-inert hazardous chemical waste materials. Such sorting facilities also facilitate re-use, recycling or return so as to reduce the amount of waste materials for disposal. Construction waste materials are then stored in designated temporary dumping area prior to disposal. To ensure proper disposal of construction wastes, we follow the “trip ticket system” which is a recording

## **BUSINESS**

---

system maintained by the Environmental Protection Department for orderly disposal of construction waste to disposal facilities by trucks. Our waste disposal programme was monitored by our site agent and foreman under the surveillance of the Environmental Protection Department to ensure the construction wastes are properly sorted and disposed of to authorised public landfills.

### **Air pollution control**

To comply with environmental regulations and to ensure workers' health, we adopt control measures to monitor dust level and debris handling. We maintain dust monitoring equipment at the site entrance or window opening to measure the level of respirable suspended particulates in order to monitor the dust emission level in the neighbourhood. Simple materials, such as a vacuum cleaner, plastic tube, plastic lid, sponge and spray water bottle, are used to make a dust extraction device that helps reduce dust emission when external walls are being polished. Such dust extraction device can be used on both smooth and irregular surfaces, and is economical and effective in reducing air pollution.

### **Noise control**

Sound level meters are utilised on the site boundary to monitor noise emission. Special sound absorption partition is erected to control the sound emission in a reasonable level. In addition, it is our policy to use quieter construction equipment or install powered mechanical equipment with effective noise reduction facilities and properly maintain our equipment to reduce the noise generated from loosen parts or defective components.

### **Water pollution control**

We run a waste water treatment system that adopts a flow regulation, settling, sedimentation and final filtration process to treat construction waste water to an acceptable level before reuse or discharge. Grease traps are used to separate oil and grease from waste water generated from our works. The treated water will then go through the waste water treatment system for further filtration. This system not only fulfils legal requirements for waste water treatment, but also allows the treated water to be reused for dust suppression.

During the Track Record Period, the annual cost of compliance with applicable environmental laws and regulations in Hong Kong were approximately HK\$322,000, approximately HK\$280,000 and approximately HK\$355,000, respectively which was mainly attributable to the levy imposed by the Government on waste disposal. We estimate that such cost of compliance will not be material in the future. During the Track Record Period and as at the Latest Practicable Date, our Directors confirmed that we were in compliance with applicable environmental laws, rules and regulations in all material respects.

## BUSINESS

---

### INSURANCE

It is a practice in the construction industry of Hong Kong that the main contractor of a project takes out and maintains employees’ compensation insurance and third party liabilities insurance in accordance with the applicable laws and regulations. The insurance policy generally covers the entire contract period, including the defects liability period following completion of the project. For details of the relevant statutory requirements in relation to insurance, please refer to the section headed “Laws and Regulations” of this [REDACTED].

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group has taken out and maintained insurance policies in respect of employees’ compensation and contractors’ all risks covering property damage arising from the project works and third party liabilities insurance for the project in accordance with the applicable laws and regulations and the insurance requirements under the contract. Our Directors confirm that our Group’s insurance coverage is in line with industry norm in Hong Kong. The insurance policies in respect of employees’ compensation maintained by us also cover the employees of our subcontractors in our works sites. In some cases, our subcontractors are required to bear the insurance costs on a case by case basis, subject to the negotiations between our Group and the subcontractors, in which case the insurance costs are deducted from the subcontracting fees payable to the subcontractors.

Although our insurance policy does not cover any losses and claims caused by substandard performance of our subcontractors, we can claim against our subcontractors for losses attributable to their substandard performance pursuant to the subcontracting agreement. Based on the above and the fact that only those subcontractors who are on our approved list are engaged, our Directors are of the view that the risk of losses or claims caused by substandard performance of works of or delay caused by the subcontractors is low.

During the Track Record Period, total insurance cost borne by us for projects amounted to approximately HK\$2.9 million, HK\$5.4 million and HK\$4.9 million, respectively. Our Directors confirm that our Group has obtained adequate insurance coverage for the operation of our business.

### COMPETITION

According to the Ipsos Report, building maintenance and renovation contracting service industry under the category of “building services installation and maintenance activities” is one of the five major contracting service industries in Hong Kong (among which include construction of buildings, civil engineering, demolition and site preparation, and building finishing and other specialised construction activities) and it plays an important role in the local building and construction industry as it can extend the life and maintain or elevate the value of the target buildings. The demand for maintenance and renovation works are usually originated from the owners of the buildings which include (i) public/Government institutions such as the Housing Authority, and (ii) private/non-government organisation e.g. owners’ corporation of residential buildings. As regards the service contracts awarded by the Government, DTCs represented the key building maintenance contracts in the public sector

## BUSINESS

---

and are awarded by the Housing Authority from time to time. Only the building maintenance contractors who are on the Housing Authority’s list of building contractors in building (maintenance) Group M2 category are eligible to tender for DTCs.

The building maintenance and renovation contracting service industry in Hong Kong is quite fragmented. There were about 295 qualified building maintenance and renovation service contractors in Hong Kong in 2013, compared to 255 in 2009. The increasing number of service providers was due to the expected bright outlook in the industry in Hong Kong in view of the growing demand for building maintenance and renovation services driven by the factors set out in the paragraph headed “Industry Overview – Growth drivers for building maintenance and renovation contracting service in Hong Kong” of this [REDACTED]. Top ten contractors in the building maintenance and renovation, details of which are set out in the section headed “Industry Overview – Top ten contractors in building maintenance and renovation contracting service market” of this [REDACTED], represented an aggregate of approximately 10.9% market share in terms of industry revenue in 2013. According to the Ipsos Report, our Group ranked sixth in the industry in terms of industry revenue in 2013.

Building maintenance and renovation contracting service providers are especially interested in capturing large-scale projects such as DTCs to maximise their revenue and profitability. As of September 2014, there were 31 contractors registered under Building (Maintenance) Group M2 category approved by the Housing Authority which are eligible to tender for the DTCs. The competition in the DTC market is highly concentrated, with the top 5 contractors contributing to approximately 65.9% of total contract revenue in 2013. Of the 24 ongoing DTCs in 2013, the top 5 contractors were responsible for 16 of them. According to the Ipsos Report, we ranked third in the DTC market in terms of revenue in DTC market in 2013.

According to the Ipsos Report, specialist knowledge and qualifications, operational experience and capital required for providing building maintenance and renovation services represent the key entry barriers for new building maintenance and renovation contracting service providers. For details, please refer to the section headed “Industry Overview – Competitive landscape – Barriers to entry” of this [REDACTED].

Please also refer to the section headed “Industry Overview – Competitive landscape” of this [REDACTED] for further details of the competitive landscape of the building maintenance and renovation contracting service industry in Hong Kong.

## PROPERTY INTERESTS

Our Group’s head office and principal place of business in Hong Kong is located at 23/F, China United Plaza, 1008 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong with a gross floor area of approximately 4,400 square feet. On 28 May 2014, Sing Fat Construction entered into a sale and purchase agreement with Mega Billion, a company beneficially owned as to approximately 5.04% by Mr. Chan Lo Kin, approximately 6.42% by Mr. Kan Man Hoo, approximately 11.16% by Mr. Kan Yiu Keung, approximately 11.16% by Mr. Kan Yiu Kwok, approximately 14.52% by Mr. Lai Kwan Hin, approximately 40.31% by Mr. Liu Su Ke, approximately 5.58% by Mr. Liu Winson Wing Sun and approximately 5.80% by Mr. Yau Shik Fan, Eddy, our Controlling Shareholders, and hence a connected

## BUSINESS

---

person of our Company, pursuant to which Sing Fat Construction agreed to sell and Mega Billion agreed to purchase the Office Premises at a cash consideration of HK\$23,200,000 which was determined with reference to market value of the Office Premises of which was based on the valuation report conducted by an independent valuer on 30 May 2014. On the date of the Disposal, i.e. 30 June 2014, the carrying value of the Office Premises amounted to approximately HK\$9,110,000 and we recorded a gain of approximately HK\$14.1 million for the year ended 30 June 2014. On 27 June 2014, Sing Fat Construction and Mega Billion entered into the Lease Agreement whereby our Group has leased back from Mega Billion, for a period from 1 July 2014 to 30 June 2016, at a rent of HK\$75,000 per month which was arrived at after arm's length negotiations between our Company and Mega Billion with reference to the prevailing market rent of the surrounding comparable office premises in the vicinity of the Office Premises based on the opinion of an independent valuer appointed by our Group. Our Board considered that the Lease Agreement is entered into in the ordinary and usual course of business of our Group and the aforesaid rent was arrived at on normal commercial terms which are fair and reasonable, and in the interests of our Company and independent Shareholders as a whole. The arrangement under the Lease Arrangement will constitute exempt continuing connected transactions after the Listing. Please refer to the section headed "Continuing Connected Transactions" of this [REDACTED] for further details.

Our Company considers that the Disposal presented a good opportunity to realise the value of the Office Premises so as to further strengthen the financial conditions of our Group by providing additional financial resources for our Group's business operation. To ensure our continual operation without any undue interruption, pursuant to the Lease Agreement, Mega Billion has undertaken to Sing Fat Construction that it will not take any initiative to require our Group to move out of the Office Premises during the term of the Lease Agreement unless required by law or regulation, order of court or direction of any governmental or regulatory authority or any other incidents outside the control of Mega Billion. In the event of a breach of undertakings on the part of Mega Billion, unless such breach is due to any legal or regulatory requirement or pursuant to court order or direction of any governmental or regulatory authority or otherwise due to any factors beyond the control of Mega Billion, our Controlling Shareholders agree to indemnify our Group against any losses, damages and expenses incurred by our Group as a result of a breach of undertaking on the part of Mega Billion under the Lease Agreement. Our Directors consider that even if the Lease Agreement is terminated for any reason, our Group will be able to identify suitable locations and enter into lease agreement on terms similar to the Lease Agreement at market rent. Our Directors consider that our Group will be able to relocate our head office without incurring substantial relocation costs (which is estimated to be not more than HK\$100,000) and any such relocation will not affect our building maintenance and renovation operations which largely take place at work sites.

In addition to the Office Premises, Sing Fat Construction owned an investment property for lease at Workshop No. 1, 2nd Floor, Vogue Centre, No. 696 Castle Peak Road, Kowloon, Hong Kong with a gross floor area of 1,500 square feet. The investment property was for lease. On 31 May 2012, such investment property was sold to an independent third party at a cash consideration of HK\$9.2 million. Our Group recorded other income of approximately HK\$5.3 million for the year ended 30 June 2012 from the proceeds of the disposal which allowed us to realise the value of the investment property and provided additional financial resources to our Group.

## BUSINESS

---

Furthermore, for our maintenance term contract and renovation projects, our project execution team will occupy areas in the vicinity of the works site designated by our customers for site office use and storage of materials and equipment on project basis for a term from the commencement date of the contract to the date of completion of the contract. For the three financial years ended 30 June 2014, the rental expenses for such site offices and storage areas amounted to approximately HK\$92,000, HK\$189,000 and HK\$310,000.

Save as disclosed above, our Group does not have any property interests.

## INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, we have applied for registration of our trademark, “” and “”, in Hong Kong. We consider our trademark to be important to our business since they foster our corporate image and brand identification. We have also registered a number of domain names. Please also refer to the section headed “Statutory and General Information – B. Further information about our business – 2. Intellectual property rights of our Group” in Appendix IV to this [REDACTED] for further details.

As at the Latest Practicable Date, we were not aware of any dispute or infringements (i) by us of any intellectual property rights owned by third parties, and (ii) we were not aware of any dispute or pending or threatened claims against us or any of our subsidiaries in relation to the material infringement of any intellectual property rights of third parties.

---

## BUSINESS

---

### EMPLOYEES, MANAGEMENT AND STAFF TRAINING

As at 30 June 2012, 2013 and 2014 and the Latest Practicable Date, we had a total of approximately 113, 117, 116 and 122 employees, respectively. All our employees are based in Hong Kong.

The following table sets forth an approximate breakdown of our full-time employees by function as at 30 June 2012, 2013 and 2014:

Function	As at 30 June			Latest
	2012	2013	2014	Practicable Date
Group Management	8	8	9	9
Accounting and Finance	2	2	3	4
Project Management and Development	61	62	56	61
Safety and Environmental Monitoring	16	15	16	17
Quality Assurance	5	4	4	4
Public Relations and Customer Services	15	20	21	20
Human Resources Administration	–	1	2	2
	<u>6</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total:	<u>113</u>	<u>117</u>	<u>116</u>	<u>122</u>

We recruit our staff mainly through [REDACTED] advertisements on website and Labour Department with reference to factors including their experience, qualifications and expertise required for our operations. They are normally subject to a 3-month probation period at the inception of their employment. We endeavour to establish good employer-employee relationships and have our human resources department promptly handle and address employee complaints and issues. During the Track Record Period, we did not have material difficulty in hiring staff.

Our Directors confirm that except as disclosed under the paragraph headed “Litigation and potential claims” of this section, we do not have any major dispute with our employees during the Track Record Period and up to the Latest Practicable Date and generally we maintain a good working relationship with our employees; and we did not experience any material labour shortages in staffing our projects.

We prohibit the recruitment of illegal workers in our offices or at the sites for which we are responsible by checking the identification documents provided by the candidates. We will report to the police when we come across any candidate with suspicious identity. During the Track Record Period, no illegal workers have been reported by us. We require our subcontractors to check the identification documents of their workers to ensure that no illegal workers are hired to work in the sites for which we are responsible.

## BUSINESS

---

Our staff related costs included salaries, wages and other staff benefits, contributions to retirement schemes, provisions for staff long service payment and untaken paid leave. For each of the three financial years ended 30 June 2014, our wages were approximately HK\$7.0 million, HK\$6.7 million and HK\$7.0 million, respectively, which were charged to our administrative expenses. We generally consider potential changes in labour costs (including the labour costs of subcontractors) as early as when we estimate our fees during the tendering process rather than adjusting our fees on an ad hoc basis. Our Directors confirm that wages of our employees and the wages of our subcontractors’ employees are higher than the statutory minimum wage.

Our Group operates MPF scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of our Group, in funds under the control of trustees. Our Group contributes 5% of relevant monthly payroll costs to the MPF scheme, whose contribution is matched by employees and subject to a cap of HK\$1,000 prior to June 2012, HK\$1,250 from June 2012 to May 2014 and HK\$1,500 thereafter per employee. During the years ended 30 June 2012, 2013 and 2014, the total expense recognised in the combined statements of profit or loss and other comprehensive income amounted to approximately HK\$0.9 million, HK\$0.9 million and HK\$1.1 million, respectively, which represent contributions payable to the scheme by our Group at rates specified in the rules of the scheme.

Our Group makes provision for probable future long service payments to employees in accordance with the Employment Ordinance. Pursuant to the Employment Ordinance, the long service payment is to be offset with the accrued benefits derived from our Group’s contributions made to MPF scheme for the employees and subject to a cap of HK\$390,000 per employee. The provision represents the management’s best estimate of our Company’s liability at the end of the reporting period. Please refer to Note 27 to the Accountant’s Report in Appendix I to this [REDACTED].

### **Staff training**

We ensure our staff receive appropriate training to provide consistent quality services to our customers and safeguard work-place safety for our staff. For these reasons, we have induction training and encourage our staff to undergo continuous safety training. We also require our staff to familiarise themselves with our most updated guidelines for the purpose of ensuring compliance with occupational health, safety and environmental laws and regulations. For details of our training provided to our staff, please refer to the paragraph headed “Occupational health and safety – safety training and promotion” of this section above.

## BUSINESS

### LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and as at the Latest Practicable Date, our Group had been or is involved in a number of claims, litigations and potential claims against our Group. Set out below are the details of (i) the ongoing litigations against our Group as at the Latest Practicable Date, (ii) potential litigations in relation to employees’ compensation claims and common law personal injury claims against our Group arising from work-related incidents and injuries as at the Latest Practicable Date; (iii) the litigation against our Group settled (whether by way of court judgment or settlement) and (iv) our criminal convictions during the Track Record Period and up to the Latest Practicable Date. Our Directors are of the view that occurrence of personal injury claims and employees’ compensation claims is not uncommon in the industry.

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

Sing Fat Construction has been joined as a defendant as a main contractor or in the course of our business as a contractor in respect of the following seven outstanding claims made by the employees of our subcontractors:

Name(s) of our Group company(ies)	Particular of the claims	Total amount involved for the ongoing claims (HK\$)	Status	Insurance coverage
<i>Employees’ compensation claims</i>				
1. Sing Fat Construction <sup>(Note 1)</sup>	In or about August 2012, it was purported that the applicant has sustained bodily injury while he was in the course of work.	To be assessed by the court	Ongoing. Interlocutory judgment on liability entered in favour of the applicant.	To be covered by our Group’s insurance policy.
2. Sing Fat Construction <sup>(Note 1)</sup>	In or about May 2012, it was purported that the applicant has sustained bodily injury while he was in the course of work.	To be assessed by the court	Ongoing. At discovery stage.	To be covered by our Group’s insurance policy.
3. Sing Fat Construction <sup>(Note 2)</sup>	In or about July 2010, it was purported that the applicant has sustained bodily injury while he was in the course of work.	To be assessed by the court	Ongoing. The claim has been adjourned as at the Latest Practicable Date.	To be covered by our Group’s insurance policy.

## BUSINESS

Name(s) of our Group company(ies)	Particular of the claims	Total amount involved for the ongoing claims (HK\$)	Status	Insurance coverage
<i>Other personal injury claims</i>				
4. Sing Fat Construction	In or about July 2011, it was purported that the plaintiff has sustained bodily injury while he was in the course of work.	HK\$2,391,423.17 plus interest	Ongoing. At discovery stage.	To be covered by our Group's insurance policy
5. Sing Fat Construction	In or about December 2008, it was purported that the plaintiff has sustained bodily injury while he was in the course of work.	HK\$427,763 (plus interest) was awarded to the plaintiff pursuant to a High Court judgment.	Ongoing. Plaintiff is appealing against the judgment.	To be covered by our Group's insurance policy.
6. Sing Fat Construction	In or about April 2013, it was purported that the plaintiff has sustained bodily injury while he was in the course of work.	HK\$982,900 plus interest	Ongoing. At pleadings stage.	To be covered by our Group's insurance policy.
<i>Miscellaneous claim</i>				
7. Sing Fat Construction	The Plaintiff claimed against Sing Fat Construction for the damages purportedly caused to the plaintiff's property in the course of works.	HK\$159,240	Ongoing. At pleading stage.	To be covered by our Group's insurance policy or our subcontractors' indemnity

*Notes:*

- Our Company was advised by Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, that the time for the applicants of these employees' compensation cases to commence common law claims for personal injuries against Sing Fat Construction has not expired under the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). It is therefore probable for these applicants to commence common law claims against Sing Fat Construction before the time is barred.
- Our Company was advised by Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, that the time to commence common law claim for personal injury against Sing Fat Construction has expired and it is therefore not probable for the applicant to commence common law claim against Sing Fat Construction unless the applicant applies to the court to override the time limit under section 30 of Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

## BUSINESS

---

### **Potential litigations in relation to employees' compensation claims and common law personal injury claims against our Group arising from work-related incidents and injuries as at the Latest Practicable Date**

Our Group's liabilities in a case of a work-related accident and injury include those under (i) the Employees' Compensation Ordinance; and (ii) common law personal injury claim. The Employees' Compensation Ordinance is a no fault system and gives employees the right to compensation in respect of (i) injuries or death caused by accidents arising out of and in the course of employment, or (ii) prescribed occupational diseases under the Employees' Compensation Ordinance. A common law personal injury claim may arise if the injury is caused to an employee by our negligence, breach of statutory duty, or other wrongful act or omission. For some of the potential claims, even if the relevant employees' compensation had been settled under our employees' compensation insurance, the injured employees may still pursue litigation claims through personal injury claims against us under common law. The damages awarded under common law claims are normally reduced by the value of the compensation paid or payable under the Employees' Compensation Ordinance in any event.

As confirmed by our Directors, as at the Latest Practicable Date, there were three employees' compensation cases which has been or will be settled by our employees' compensation insurance but as the limitation period for personal injury claims (which is generally three years from the date of the relevant incidents) have not lapsed, it is still possible for the subject persons to commence common law personal injury legal actions against our Group. In addition, there are 20 employee compensation cases which have been reported to the Labour Department and 27 reported cases on minor property damage and personal injury arising during usual and ordinary course of our business but no further action has commenced in respect of such cases after the reporting. These potential claims are within the limitation period of three years (in respect of personal injury cases) and six years (in respect of property damage cases) from the date of the relevant incidents. As such claims have not commenced, we are not in a position to assess the likely quantum of such potential claims and outstanding claims. In any event, our Group has insurance cover and subcontractors' indemnity for our liabilities of all these potential claims and outstanding claims as at the Latest Practicable Date and notices of all the accidents had been given to the insurers. These accidents were caused during usual and ordinary course of our business and have not caused disruption to our Group's business or adverse impact on our Group to obtain any licences or permits for our operation.

## BUSINESS

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

During the Track Record Period and up to the Latest Practicable Date, we have settled the following claims which were fully covered by our insurance and subcontractor’s indemnity.

Name(s) of our Group company(ies)	Particulars of the claims	Approximate amount settled	Settlement date
<i>Employees’ compensation claims</i>			
1. Sing Fat Construction <sup>(Note 1)</sup>	On 12 April 2013, the applicant sustained injury to his left index finger while he was instructed to chisel on the surface of external wall on top of a scaffold.	HK\$351,000	17 June 2014
2. Sing Fat Construction <sup>(Note 2)</sup>	On 29 March 2012, the applicant sustained injury to his right elbow after he fell in the course of painting works at external wall of a building.	HK\$426,000	17 June 2014
3. Sing Fat Construction <sup>(Note 3)</sup>	On 4 November 2013, the applicant sustained a second to third degree burn over his left forearm as a result of an explosion that occurred in the course of dismantling a metal handrail attached to a wall at a works site.	HK\$269,000 (costs to be confirmed and settled by insurer)	16 April 2014
4. Sing Fat Construction <sup>(Note 4)</sup>	On 9 August 2011, the applicant sustained injury to his left shoulder and back after he slipped and fell from a suspended working platform.	HK\$537,000	15 November 2013
5. Sing Fat Construction <sup>(Note 5)</sup>	On 13 September 2012, the applicant sustained injury to his left thumb after he fell from a scaffold at a works site.	HK\$1,406,000	25 February 2013
6. Sing Fat Construction <sup>(Note 6)</sup>	On 6 January 2012, the applicant suffered bone fracture after he slipped and fell from a wooden ladder at a works site.	HK\$291,000	7 May 2013
7. Sing Fat Construction <sup>(Note 7)</sup>	On 14 June 2011, the applicant sustained injury to his back and left wrist while he moved cement bags at a works site.	HK\$253,000	4 February 2013

## BUSINESS

Name(s) of our Group company(ies)	Particulars of the claims	Approximate amount settled	Settlement date
8. Sing Fat Construction <sup>(Note 8)</sup>	On 23 December 2008, the applicant sustained injury to his left ankle after he fell from a height in the course of scaffolding works.	HK\$621,000	before 31 October 2013 (PI case ongoing)
9. Sing Fat Construction <sup>(Note 9)</sup>	On 12 December 2008, the applicant sustained back injury while he was uplifting metal frame at a works site.	HK\$265,000	before 11 August 2011
10. Sing Fat Construction <sup>(Note 10)</sup>	On 24 September 2009, the applicant sustained blast injury while he was working at a works site.	HK\$520,000	25 February 2013
<i>Other personal injuries claims</i>			
11. Sing Fat Construction	On 4 November 2013, the plaintiff sustained a second to third degree burn over his left forearm as a result of an explosion that occurred in the course of dismantling a metal handrail attached to a wall at a works site.	HK\$860,000 (costs to be confirmed and settled by insurer)	11 June 2014
12. Sing Fat Construction	On 9 August 2011, the plaintiff sustained injury to his left shoulder and back after he slipped and fell from a suspended working platform.	HK\$730,000	29 January 2014
13. Sing Fat Construction	On 6 January 2012, the plaintiff sustained bone fracture after he slipped and fell from a wooden ladder at a works site.	HK\$270,000	8 October 2013 and 6 February 2014
14. Sing Fat Construction	On 14 June 2011, the plaintiff sustained injury to his back and left wrist while he moved cement bags at a works site.	HK\$953,000	25 October 2013
15. Sing Fat Construction	On 27 July 2010, the plaintiff sustained injury to his right hand when he came into contact with the sharp edge of a metal frame at a works site.	HK\$470,000	3 July 2014

---

## BUSINESS

---

Name(s) of our Group company(ies)	Particulars of the claims	Approximate amount settled	Settlement date
16. Sing Fat Construction	On 27 March 2010, the plaintiff sustained personal injuries caused by falling residues of arc welding during the performance of welding work.	HK\$100,000	6 February 2012
17. Sing Fat Construction	On 25 June 2009, the plaintiff sustained back injury while the plaintiff was lifting a bag of cement from the ground at a works site.	HK\$400,000	18 June 2012
18. Sing Fat Construction	On 12 December 2008, the plaintiff sustained back injury while he was uplifting metal frame at a works site.	HK\$110,000	22 August 2011
19. Sing Fat Construction	On 25 April 2009, the plaintiff sustained back injury in the course of employment.	HK\$310,000	30 November 2011

*Miscellaneous claims*

20. Sing Fat Construction	On or about 19 January 2012, loss and damage was occasioned to the plaintiff arising from water influx to his premises purportedly caused by the defendants.	HK\$150,000	20 May 2014
---------------------------	--	-------------	-------------

*Notes:*

1. The applicant has commenced personal injury claims against Sing Fat Construction, details of which are set out in item 6 in the paragraph headed "Ongoing litigation claims against our Group as at the Latest Practicable Date" above.
2. Our Company was advised by Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, that the time for the applicant of this employees' compensation case to commence common law claim for personal injury against Sing Fat Construction has not expired under the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). It is therefore probable for this applicant to commence common law claim against Sing Fat Construction before the time is barred.
3. The applicant has commenced personal injury claim against Sing Fat Construction which has been settled, details of which are set out in item no. 11 above.
4. The applicant has commenced personal injury claim against Sing Fat Construction which has been settled, details of which are set out in item no. 12 above.
5. Our Company was advised by Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, that notwithstanding that the applicant did not commence a separate action for his common law claim, both his employees' compensation claim and intended common law claim for personal injuries arising out of this accident has been settled.
6. The applicant has commenced personal injury claim against Sing Fat Construction which has been settled, details of which are set out in item no. 13 above.

---

## BUSINESS

---

7. The applicant has commenced personal injury claim against Sing Fat Construction which has been settled, details of which are set out in item no. 14 above.
8. The applicant has commenced personal injury claims against Sing Fat Construction, details of which are set out in item 5 in the paragraph headed "Ongoing litigation claims against our Group as at the Latest Practicable Date" above.
9. The applicant has commenced personal injury claim against Sing Fat Construction which has been settled, details of which are set out in item no. 18 above.
10. Our Company was advised by Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, that the time to commence common law claim for personal injury against Sing Fat Construction has expired and it is therefore not probable for the applicant to commence common law claim against Sing Fat Construction unless the applicant applies to the court to override the time limit under section 30 of Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

### **No provision for litigation claims**

For the three employees' compensation cases that have been or will be settled by our employees' compensation insurance but the limitation period for personal injury claims (which is generally three years from the date of the relevant incidents) have not lapsed and the 20 employee compensation cases that have been reported to the Labour Department during the past three years and 27 reported cases on minor property damage and personal injury arising during usual and ordinary course of our business but no further action has commenced in respect of such cases after the reporting, having considered, among other things, (i) the nature and the degree of injuries of each incident; (ii) any payments made so far for settlement for each incident; (iii) the status of the injured employees (whether they are on leave, resigned or whether they have resumed duty); (iv) the estimated total cost of treatment and potential claim against our Group of each incidents as assessed based on the experience of our management; (v) the coverage of our insurance policy; (vi) our subcontractors' indemnity in favour of our Group; (vii) the legal advice from Messrs. Adrian Yeung & Cheng Solicitors, our Hong Kong legal adviser as to litigation, on the likely outcome of these cases; and (viii) our Group's historical litigation records, our Directors consider that no provision for contingent liabilities in respect of current and pending litigations is necessary.

### **Indemnity from our Controlling Shareholders**

Our Controlling Shareholders have entered into a deed of indemnity in favour of us to provide indemnities on a joint and several basis in respect of, among other matters, any claims, payments, suits, damages, settlements payments costs and expenses which would be incurred or suffered by our Group as a result of any litigation, arbitration and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature against any member of our Group which was issued and/or accrued and/or arising from any act, non-performance, omission or otherwise of any member of our Group on or before the date on which the [REDACTED] becomes unconditional. Please refer to the section headed "E. Other information – 1. Tax and other indemnities" in Appendix IV to this [REDACTED] for details of the deed of indemnity. The Sponsor is satisfied that our Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid outstanding claims against our Group under the deed of indemnity.

## **BUSINESS**

---

Save as disclosed above, our Directors, to the best of their knowledge information and belief having made all reasonable enquiries, are not aware of any litigation proceedings pending or threatened against us which could have a material adverse effect on our financial condition or results of operations.

### **Criminal convictions**

During the Track Record Period and up to the Latest Practicable Date, Sing Fat Construction was convicted for 11 criminal litigations, which include, among other things, failure to take adequate steps to prevent any person on the site from falling from a height of two metres or more, failure to ensure that, so far as is reasonably practicable, suitable and adequate safe access to and egress from every place of work on the site is provided and properly maintained, failure to take all reasonable steps to ensure that no workman remains on the site unless he is wearing a suitable safety helmet and failure to ensure that suitable goggles, eye protectors, effective screens, shield or fixed shield were provided for the protection of the workman. The criminal convictions were all monetary penalty and such convictions were made against our Group but not against our Directors or the senior management of our Group personally. Our Group was subject to fines which were recovered by our Group from the subcontractors. For details of the fines imposed on our Group, please refer to the paragraph headed “Legal and regulatory compliance – Non-compliance of our Group during the Track Record Period up to the Latest Practicable Date – Operational non-compliance matters” of this section below. Our Directors confirm that all these convictions were made against our Group in our capacity as a main contractor and our subcontractors are required to indemnify our Group for the fines settled by us.

### **LEGAL AND REGULATORY COMPLIANCE**

As at the Latest Practicable Date, we have obtained all necessary approvals, permits, licences and certificates that are material to our business operations from the relevant Government authorities. For details of the requisite approvals, permits, licences and certificates required for our business operation, please refer to the section headed “Laws and Regulations – Contractor licensing regime and operation” of this [REDACTED]. Save as disclosed in the paragraph headed “Legal and regulatory compliance – Non-compliance of our Group during the Track Record Period and up to the Latest Practicable Date” of this section, we had been in compliance in all material aspects with the applicable laws and regulations in Hong Kong.

## BUSINESS

### Licence and qualifications

As at the Latest Practicable Date, our Group has the following approvals, permits, licences and certificates that are material to our business operations in Hong Kong:

Relevant authority/ organisation	Relevant List/ Category	Licence	Holder	Date of first grant/ registration	Authorised contract value
1. Housing Authority	Housing Authority List of Building Contractors -Maintenance Works Category	Group M2 (confirmed status) <sup>(Note 1)</sup>	Sing Fat Construction	22/02/1996	maintenance and improvement contracts of unlimited value
2. Housing Authority	Quality Maintenance Contractor <sup>(Note 2)</sup>	–	Sing Fat Construction	01/03/2001	N/A
3. Building Authority	General Building Contractor <sup>(Note 3)</sup>	–	Sing Fat Construction	07/11/1999	N/A
4. Building Authority	Specialist Contractor (Sub-register of Demolition Works Category) <sup>(Note 4)</sup>	–	Sing Fat Construction	05/05/2000	N/A
5. Building Authority	Minor Works Contractor (Company) <sup>(Note 5)</sup>	Classes I, II and III; II and III <sup>(Note 6)</sup>	Sing Fat Construction	25/10/2012	N/A
6. WBDB <sup>(Note 7)</sup>	Approved Contractor for Public Works – Buildings Category	Group B (on probation) <sup>(Note 8)</sup>	Sing Fat Construction	24/10/1968	contracts value up to HK\$185 million

*Notes:*

1. A Maintenance Works Category – Group M2 (confirmed status) contractor is eligible to tender for maintenance and improvement contracts of Housing Authority of unlimited value.
2. The current certificate was valid from January 2014 to December 2014. Our Directors do not expect any impediment to renewal of the certificate.
3. The current licence was renewed in December 2013 and will expire on 21 December 2016. Our Group is interested in providing services in the removal of unauthorised building works and carrying out necessary consequential reinstatement works and services in services in maintenance and repair of buildings and drainage. Our Directors do not expect any impediment to renewal of the licence.
4. The current licence was renewed in August 2013 and will expire on 24 May 2016. Our Directors do not expect any impediment to renewal of the licence.
5. Under the minor works control system implemented by the Buildings Department since 31 December 2010, a Minor Works Contractor (Company) is registered in the name of a company for carrying out various classes and types of minor works. The current licence was renewed in October 2012 and will expire on 25 October 2015. Our Directors do not expect any impediment to renewal of the licence.

---

## BUSINESS

---

6. Minor works are classified into three classes (Class I, II and III) according to their scale, complexity and risk to safety and are subject to different degrees of control. Class I (total of 44 items) includes mainly those relatively more complicated minor works. Class II (total of 40 items) comprises those of comparatively lower complexity and risk to safety. Class III (total of 42 items) mainly includes common household minor works. Minor works are also grouped into seven types (i.e. Type A, B, C, D, E, F and G) according to their nature. Sing Fat Construction is registered for carrying out Type A (Alteration and Addition Works) minor works under Classes I, II and III, Type B (Repair Works) minor works under Classes I, II and III, Type D (Drainage Works) minor works under Classes II and III, Type E (Works relating to Structures for Amenities) minor works under Classes I, II and III, Type F (Finishes Works) minor works under Classes I, II and III and Type G (Demolition Works) minor works under Classes I, II and III.
7. WBDB refers to the Works Branch Development Bureau (發展局工務科) of the Government. The Development Bureau has maintained the Contractor List and the Specialist List to monitor the eligibility of a contractor to tender for public works.
8. A Group B (probationary status) contractor is eligible to tender or for award of (i) any number of Group A contracts (i.e. contracts of value up to HK\$75 million) in the same category; and (ii) any number of Group B contracts (i.e. contracts of value up to HK\$185 million) in the same category, provided that total value of works in the Group B contracts that he already holds and the Group B contract being procured under the same category does not exceed \$185 million.

Under the current regulatory regime, a qualified or licensed contractor could be prohibited from tendering for public works of the relevant category during the suspension period if the safety performance of the contractor is not up to satisfaction. We have not experienced any difficulties in renewing any of the licences and have not encountered any disruption or revocation of the above licences. Our Directors confirmed that no obstacle is expected when we renew our licences. Further details of the regulatory regime are set out in the section headed “Law and Regulations – Contractor licensing regime and operation” of this [REDACTED].

To ensure that we are able to timely obtain and maintain all necessary licences for our operations in Hong Kong, Mr. Liu Winson Wing Sun, our executive Director, is responsible for keeping track of the expiry dates of all relevant licences and apply for timely renewal. We carry out our business activities strictly within the scope of the relevant licences and/or permits obtained by us.

### **Non-compliance of our Group during the Track Record Period and up to the Latest Practicable Date**

Our subsidiary, Sing Fat Construction, has on occasions not complied with certain statutory requirements during the Track Record Period and up to the Latest Practicable Date, as described below.

## BUSINESS

### *Operational non-compliance matters*

The table below summarises certain non-compliance of/convictions against Sing Fat Construction during the Track Record Period in relation to its business operation:

Offence(s)	Date of summons	Penalty	Personnel involved in the breach
Failing to ensure that suitable and adequate safe access to and egress from a place of work was provided and properly maintained contrary to Regulations 38A(2), 68(1)(a) and 68(2)(g) of Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	4 January 2012	\$10,000	Former safety officers of Sing Fat Construction at the relevant time
	6 November 2013	\$13,000	
	9 July 2014	Hearing to be held in October 2014 (maximum potential penalty is HK\$200,000)	
Failing to take adequate steps to prevent person from falling contrary to Regulations 38B(1), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	4 January 2012	\$15,000	Former safety officers of Sing Fat Construction at the relevant time
	5 January 2012	\$16,000	
	11 December 2012	\$16,000	
	20 December 2012	\$15,000	
	3 September 2013	\$18,000	
	9 July 2014	Hearing to be held in October 2014 (maximum potential penalty is HK\$200,000)	
Failing to take all reasonable steps to ensure that workmen who were not wearing suitable safety helmets did not remain on the site contrary to Regulations 48(1)(b), 68(1)(a) and 68(2)(b) of Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	20 December 2012	\$8,000	Former safety officers of Sing Fat Construction at the relevant time
	19 September 2014	Hearing to be held on 23 October 2014 (maximum potential penalty is HK\$50,000)	
Failing to provide for the use of every person employed in the breaking of concrete or stone carried on approved eye protectors for the protection of their eyes, having regard to the specified process in which those persons were employed and the risk of injury to their eyes from the carrying on of that process contrary to Regulations 5 and 9(1) of the Factories and Industrial Undertakings (Protection of Eyes) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	4 September 2013	\$3,000	Former safety officers of Sing Fat Construction at the relevant time

## BUSINESS

Offence(s)	Date of summons	Penalty	Personnel involved in the breach
Failing to ensure that suitable goggles or effective screens were provided for the protection of the workman contrary to Regulations 43(a), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	4 September 2013	\$3,000	Former safety officers of Sing Fat Construction at the relevant time
Failing to ensure workman used the suitable goggles which were provided for the protection of the workman contrary to Regulations 43(b), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	19 June 2014 19 September 2014	\$4,500 Hearing to be held on 23 October 2014 (maximum potential penalty is HK\$50,000)	Former safety officers of Sing Fat Construction at the relevant time
Failing to ensure a scaffold was not used unless certain conditions have been satisfied contrary to Regulations 38F(1)(a)(ii), 38F(1)(b), 68(1)(a) and 68(2)(a) of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	9 July 2014	Hearing to be held in October 2014 (maximum potential penalty is HK\$200,000)	Former safety officers of Sing Fat Construction at the relevant time
Failing to produce scaffold examination report for inspection by Occupational Safety Officer contrary to Regulations 38F(4)(b)(i), 68(1)(a) and 68(2)(d) of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance, Cap. 59	9 July 2014	Hearing to be held in October 2014 (maximum potential penalty is HK\$10,000)	Former safety officers of Sing Fat Construction at the relevant time

As confirmed by our Directors, the criminal convictions against our Group generally arose because the relevant workers of subcontractors did not follow the safety guidelines issued by our Group.

Our Directors consider that the legal consequence of our criminal convictions resulting from the above non-compliance incidents only involved imposition of fines of immaterial amount without any impact on our financial position. The aforesaid non-compliance incidents did not involve intentional misconduct, fraud, dishonesty or corruption on the part of our Directors and senior management of our Group. We adopt rectification and preventative measures under our occupational health and safety management system to ensure ongoing compliance, reduce the number of non-compliance incidents and manage our risk exposure to such non-compliance incidents. Details of such rectification and preventative measures are set out in the paragraph headed “Legal and Regulatory Compliance – Our Group’s internal control and risk management measures to tackle risk of personal injuries and employees’ compensation claims against our Group” of this section below. On the basis of the above, our Directors are of the view, and the Sponsor concurs, that (i) our suitability of listing is not affected by such non-compliance incidents; and (ii) these non-compliance incidents do not reflect a material defect in the character, integrity or experience of the Directors and that our Directors are suitable to act as our Directors under Rules 3.08 and 3.09 of the Listing Rules.

## BUSINESS

---

*Our Group’s internal control and risk management measures to tackle risk of personal injuries and employees’ compensation claims against our Group*

During the Track Record Period and up to the Latest Practicable Date, (i) there were seven on-going litigation cases against our Group of which three cases are employees’ compensations cases and three cases are personal injury cases and one case relates to property damage claim. Our Group had settled an aggregate of 19 employees’ compensation case and personal injury claims during the Track Record Period; and (ii) Sing Fat Construction was convicted of 11 criminal charges resulting from non-compliance of construction safety regulations under the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong). For details of such litigation cases and instances of non-compliance of the statutory safety regulations, please refer to the paragraphs headed “Litigation and potential claim” and “Legal and regulatory compliance – Non-compliance of our Group during the Track Record Period and up to the Latest Practicable Date – Operational non-compliance matters” of this section. Notwithstanding the above, our Directors believe that the internal control measures as detailed below are adequate and effective to tackle the risk of personal injuries and employees’ compensation claims against our Group and the risk of non-compliance for the following reasons:

*(a) Legal landscape of the construction industry in Hong Kong*

As a main contractor, it is not uncommon for a main contractor in the construction industry in Hong Kong to face a relatively large number of employees’ compensation cases and personal injury claims and minor non-compliance of safety regulations. During the Track Record Period, the legal consequence of our criminal convictions resulting from such non-compliance only involved imposition of fines of immaterial amount without causing any impact on our financial position.

*(b) Control over subcontractors*

A principal contractor is liable to pay compensation to subcontractors’ employees who are injured in the course of their employment with the subcontractor pursuant to section 24 of the Employees’ Compensation Ordinance. We are involved in civil litigation cases relating to personal injuries and employee’ compensation simply because we are joined as defendants by virtue of our capacity as a main contractor. In order to reduce the number of personal injuries and employees’ compensation cases against us, we closely supervise and monitor the performance of our subcontractors to ensure that they comply with the statutory safety requirements by regular inspection and constant training. For details of our control measures over our subcontractors on compliance of safety requirements, please refer to the paragraph headed “Control over subcontractors – Control over subcontractors’ compliance of occupational health, safety, environmental rules and regulations” of this section.

*(c) Insurance policies taken out by us and subcontractors’ indemnity*

As a main contractor, we have taken out and maintained employees’ compensation insurance and contractors’ all risks insurance covering property damage arising from the project works and third party liabilities insurance for the project in accordance with

## BUSINESS

---

the statutory requirements and relevant contractual terms. Our Group’s insurance coverage is in line with the industry practice. Also, the subcontracting agreements in general contain, among other things, undertaking by subcontractors to indemnify us against any loss, expense or claim arising from negligence, misconduct, or failure to comply with subcontracting agreement by the subcontractors and/or their employees. All those employees’ compensation claims and personal injuries claims, both already settled during the Track Record Period and up to the Latest Practicable Date and those still outstanding as at the Latest Practicable Date, were/are covered by insurance or recoverable from subcontractors.

*(d) Our measures and systems in place for compliance of occupational health, safety and environmental laws and regulations*

Our Group has put in place measures and systems for our work safety, quality control, environmental protection. Mr. Liu Winson Wing Sun, our executive Director and our safety director, is responsible for ensuring compliance of safety rules and regulations by our Group, our staff and the site workers. We believe that such measures and systems are adequate on the following grounds:

*(i) Occupational health and safety*

We are committed to providing a safe and healthy working environment. Our system follows international standards and is certified to be in compliance with the requirements of OSHAS 18001:2007 and ISO 14001:2004 since 2008 and 2007, respectively. Our work safety measures include, amongst other things, establishment of a safety, health and environmental management committee, regular safety inspection by our project execution team, regular external audit on the safety management system by HKQAA auditor and regular safety training provided to our staff and subcontractors’ employees. We hold safety committee meeting on a monthly basis to set strategic guidelines for our safety department to manage occupational health and safety measures relating to our operation and monitor the implementation of safety management for our Group. Our safety managers will continue to provide internal safety training programmes relating to the latest safety laws, rules and regulations to our management and staff. For details of our safety management control measures, please refer to the paragraph headed “Occupational health and safety” of this section. In recognition of our Group’s safety policy, we have been awarded a number of awards from the Housing Authority and the Labour Department. For details of our Group’s awards relating to our safety practice, please refer to the paragraph headed “Awards and accreditations” of this section.

## BUSINESS

As a result of our safety measures, we have zero fatality rate and the accident rate of our Group is lower than the industry average as shown below:

	<b>Calendar year 2011</b>	<b>Calendar year 2012</b>	<b>Calendar year 2013</b>
Accident rate per 1,000 workers of construction industry in Hong Kong <sup>(Note 1)</sup>	49.7	44.3	40.8
Accident rate per 1,000 workers undertaking maintenance works of the Housing Authority <sup>(Note 2)</sup>	7.3	4.8	4.1
Accident rate per 1,000 workers of our Group <sup>(Note 3)</sup>	0.040	0.032	0.043
Fatality rate per 1,000 workers of construction industry in Hong Kong <sup>(Note 1)</sup>	0.367	0.337	0.277
Fatality rate per 1,000 workers of our Group <sup>(Note 4)</sup>	0	0	0

*Notes:*

1. Occupational Safety and Health Statistics Bulletin Issue No. 14 (July 2014) published by Occupational Safety and Health Branch, Labour Department.
2. Performance statistics as shown in the Site Safety website of the Housing Authority.
3. The accident rate per 1,000 workers of our Group is calculated by dividing the number of industrial accidents involving our Group by the number of workers involved in our projects during the calendar year times 1,000.
4. The fatality rate per 1,000 workers of our Group is calculated by dividing the number of industrial fatalities involving our Group by the number of workers involved in our projects during the calendar year times 1,000.

*(ii) Quality assurance*

We have put in place a quality management system which has been certified to be in compliance with the requirements of ISO 9001:2008 and ISO 14001:2004 since 1993 and 2007 respectively. Our quality assurance measures have enabled us to provide a quality service that meets both contractual and statutory requirements and we are able to utilise our resources in a planned, systematic, efficient, safe and cost effective manner. We closely monitor and regularly inspect the quality of purchased materials and our subcontractors' workmanship standard. We offer customer services to our customers to handle and resolve complaints and non-conformities and consider corrective and preventive actions. We constantly

## BUSINESS

---

seek to improve our quality management system through annual evaluation and assessment by our management. For details of our quality assurance measures, please refer to the paragraph headed “Quality assurance” of this section. In recognition of our Group’s quality service, we have received awards from the Housing Authority for ten years. For details of our awards relating to our quality service, please refer to the paragraph headed “Awards and accreditation” of this section.

*(iii) Environmental protection*

Our Group’s environmental management system currently in place has been certified to be in compliance of the requirements of ISO 14001:2004 since 2007. We adopt environmental management plan to ensure proper management of environmental protection and compliance of environmental laws and regulations in the course of project execution in respect of waste management, dust and noise control and sewage control. Our project/construction manager and site agents work with the safety officer and safety supervisors to monitor and evaluate the degree of the site work’s compliance with environmental rules and regulations, review the adequacy of environmental protection measures on site and take immediate steps to remedy any defects or conditions that may cause harm to the environment and nuisance to the general public. Our environmental management plan meets the requirements of our customers who take environmental protection very seriously as a major criteria to select their service providers. For details of our Group’s environmental management system, please refer to the paragraph headed “Environmental protection” of this section.

*(e) Successful renewal of licences of our Group*

Our Group holds all requisite licences and approval for carrying out our business in Hong Kong, details of which are set out in the paragraph headed “Legal and regulatory compliance – Licences and qualifications” of this section. The validity of such licences has never been affected by the litigations and convictions to which our Group was subject. Our renewal of licences has never been refused by regulatory authorities and we are never subject to any regulatory actions or investigations brought by the Housing Authority, the Building Authority and WBDB. Based on the above, our Directors believe that the regulators including the Housing Authority, the Building Authority and WBDB are in general satisfied with our quality of works and safety measures implemented by our Group.

*(f) Indemnity from our Controlling Shareholders*

Our Controlling Shareholders have entered into a deed of indemnity with and in favour of us to provide indemnities on a joint and several basis in respect of, among other matters, all claims, payments, suits, damages, settlements payments and any associated costs and expenses which would be incurred or suffered by our Group as a result of any litigation, arbitration and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature against any member of our Group which was issued and/or accrued and/or arising from any act, non-performance,

## BUSINESS

---

omission or otherwise of any member of our Group on or before the Listing Date. This would further protect our Group from any material adverse consequence due to any claims incurred on or before the date on which the [REDACTED] becomes unconditional. Please refer to the section headed “E. Other information – 1. Tax and other indemnities” in Appendix IV to this [REDACTED] for details of the deed of indemnity. The Sponsor is satisfied that our Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid outstanding claims against our Group under the deed of indemnity.

On the basis of the foregoing, having considered that:

- (i) it is not uncommon for a main contractor in the construction industry in Hong Kong to face a relatively large number of employee’s compensation cases and personal injury claims and minor non-compliance of safety regulation;
- (ii) we closely supervise the performance of our subcontractors;
- (iii) we have effective measures in place for compliance of occupational health, safety and environmental laws and regulations;
- (iv) we have taken out sufficient insurance policies in line with the industry practice and statutory requirements;
- (v) we have successfully renewed our licences without experiencing any obstacles and refusal by the Housing Authority, Building Authority and WBDB;
- (vi) we are never subject to any regulatory actions and investigations by the Housing Authority, Building Authority and WBDB;
- (vii) the accident rate and fatality rate of Sing Fat Construction are lower than that of the industry average, and in particular our Group has not encountered any fatal construction accidents during the Track Record Period and up to the Latest Practicable Date; and
- (viii) the work safety control, quality control and environmental management system of our Group are currently in place and satisfactory by our customers,

our Directors are of the view, and the Sponsor concur, that the internal control measures adopted by our Group are adequate and effective to tackle risk of personal injuries and employees’ compensation claims against our Group.

## BUSINESS

### *Non-compliance of the Predecessor Companies Ordinance and the Companies Ordinance*

Sing Fat Construction has inadvertently breached certain sections of the Predecessor Companies Ordinance and the Companies Ordinance. The table below summarises the non-compliance with the requirements of the Predecessor Companies Ordinance and the Companies Ordinance by Sing Fat Construction during the Track Record Period:

Item(s) of non-compliance	Particulars of the non-compliance	Cause for the non-compliance	Personnel involved in the non-compliance	Remedial actions	Potential maximum penalty/fine
Non-compliance with section 117 of the Predecessor Companies Ordinance and section 622 of the Companies Ordinance	Late filing of special resolution dated 8 July 2013	As confirmed by our Directors, Sing Fat Construction had been relying on its then external company secretary for the preparation of its filings with the Companies Registry, who had inadvertently delayed the filings	Former internal accountants of Sing Fat Construction at the relevant time	Filing was subsequently made on 24 July 2013	Sing Fat Construction and every officer of Sing Fat Construction who is in default (or responsible person under the Companies Ordinance) shall be liable on summary conviction to a potential maximum fine of HK\$10,000 and daily default fine of HK\$300 for continued default
Non-compliance with section 349 of the Predecessor Companies Ordinance and section 895 of the Companies Ordinance	Various incorrect dates of share transfers, name of director, address of director, and addresses of shareholders in Form D2A and annual returns from 21 December 1991 to 8 February 2014	As confirmed by our Directors, Sing Fat Construction had been relying on its then external company secretary for the preparation of its Forms D2A and annual returns, who had inadvertently filled in incorrect information in the relevant Form D2A and annual returns	Former internal accountants of Sing Fat Construction at the relevant time	Amended Form D2A and annual returns were filed on 6 October 2014	Sing Fat Construction, its relevant shareholders, directors and/or officers who willfully made the relevant incorrect information in such annual returns, knowing it to be false, shall be liable on summary conviction to a potential maximum fine of HK\$100,000 and imprisonment of 6 months, or on conviction on indictment under the Companies Ordinance to a potential maximum fine of HK\$300,000 and imprisonment for 2 years.
Non-compliance with section 158 of the Predecessor Companies Ordinance and section 652(2) of the Companies Ordinance	No filing in relation to resignation of Mr. Lai Kwan Yim as company secretary on 1 August 1984	As confirmed by our Directors, Sing Fat Construction had been relying on its then external company secretary for the preparation of its filings with the Companies Registry, who had either inadvertently omitted the filing	Former internal accountants of Sing Fat Construction at the relevant time	Filing was subsequently made on 6 October 2014	Sing Fat Construction and every officer who is in default shall be liable on summary conviction to a potential maximum fine of HK\$10,000 and daily default fine of HK\$300 for continued default, or a potential maximum fine of HK\$25,000 and daily default fine of HK\$700 under the Companies Ordinance.

As confirmed by our Directors, Sing Fat Construction did not receive any notices for any fines or penalties in relation to the above Companies Ordinance-related non-compliance as at the Latest Practicable Date.

## BUSINESS

---

Upon identification of the above non-compliances, the Company has engaged Mr. Chan Chung (the “Counsel”), barrister-at-law, to issue a legal opinion on the above non-compliances with the Predecessor Companies Ordinance and Companies Ordinance. The Counsel has advised us as follows:–

- (A) the likelihood of the imposition of a maximum aggregate penalties/fines and custodial sentence on Sing Fat Construction and its directors/officer for late filing is highly remote given that breach is very minor in terms of gravity and the breach was committed inadvertently due to an oversight by the external company secretary engaged by Sing Fat Construction;
- (B) for wrong information in various filings with the Companies Registry, there cannot be any allegation of making a false statement in corporate documents under section 895 of the Companies Ordinance or section 349 of the Predecessor Companies Ordinance given that these breaches were committed inadvertently due to an oversight by the external company secretaries engaged by Sing Fat Construction; and
- (C) if Sing Fat Construction is prosecuted and convicted in relation to the non-compliance with section 158 of the Predecessor Companies Ordinance and section 652(2) of the Companies Ordinance, it is estimated that a fine in the range of HK\$35,000 to HK\$60,000 would be imposed.

Based on the above, our Directors are of the view that there would be no material impact on our Group’s operation or financial positions as a result of the above instances of non-compliance.

Our Controlling Shareholders, collectively as the indemnifiers, have entered into a deed of indemnity in favour of our Company, under which the indemnifiers jointly and severally covenant and undertake with our Company to indemnify our Group against losses, liabilities, damages, costs, claims and expenses incurred by our Group in relation to these non-compliance matters at any time prior to the Listing Date. More details of the deed of indemnity are set out in “E. Other information – 1. Tax and other indemnities” in Appendix IV to this [REDACTED].

Our Directors consider the potential maximum penalties of the abovementioned Companies Ordinance-related non-compliance incidents to be immaterial. Accordingly, no provision for the penalties has been made by our Directors for the preparation of the financial statements.

Taking into account (i) the aforesaid non-compliances were mainly due to over-sight or misunderstanding of certain provisions of the Predecessor Companies Ordinance; (ii) the aforesaid non-compliances did not involve intentional misconduct, fraud, dishonesty or corruption on the part of our Directors; and (iii) our Directors have adopted the rectification and preventative measures as set out in the paragraph headed “Legal and regulatory compliance – Non-compliance of the Predecessor Companies Ordinance and the Companies Ordinance – Our Group’s internal control and risk management measures to tackle the risk of non-compliance of the Companies Ordinance and other legal compliance” below, our

## BUSINESS

---

Directors are of the view, and the Sponsor concurs, that these non-compliances do not reflect a material defect in the character, integrity or experience of our Directors. Furthermore, our Directors have been given training on the new Companies Ordinance. Our Directors are therefore of the view, and the Sponsor concurs, that our Directors are suitable to act as our Company’s Directors under Rules 3.08 and 3.09 of the Listing Rules. Furthermore, given the rectification status of the non-compliances identified as well as the deed of indemnity given in favour of us by the Controlling Shareholders, our Directors are of the view, and the Sponsor concurs, that the abovementioned Companies Ordinance-related non-compliances do not affect our suitability of listing under Rule 8.04 of the Listing Rules.

### ***Our Group’s internal control and risk management measures to tackle the risk of non-compliance of the Companies Ordinance and other legal compliance***

In order to prevent the reoccurrence of non-compliance of the Companies Ordinance and to ensure the ongoing compliance with the Companies Ordinance and other relevant legal and regulatory requirements, we have adopted and implemented the following specific measures prior to Listing:

- (a) We will adopt the following measures concerning on-going compliance of the Companies Ordinance:
  - (i) We have appointed Ms. So Hau Kit as company secretary of our Company. Our Directors believe she is suitable for this role based on her experience and her secretarial background. Ms. So will report to our compliance officers, Mr. Liu Winson Wing Sun. For the experience and qualifications of Ms. So, please refer to the section headed “Directors, senior management and staff” of this [REDACTED].
  - (ii) To assist our company secretary in ensuring relevant documents are filed with the Companies Registry in a timely manner, Ms. So will maintain a list recording the status, further work to be done and deadline for filing with the Companies Registry of Hong Kong in respect of each of the companies within our Group which are subject to the requirements under the Companies Ordinance, and she will regularly update the list and report to Mr. Liu Winson Wing Sun for the progress.
  - (iii) Our company secretary will keep herself updated with the latest compliance and regulatory requirement development relating to the Companies Ordinance.
  - (iv) Our company secretary will make recommendations to our Board and assist them in developing new company policies and procedures with any latest update of the Companies Ordinance.
  - (v) We will further implement training programmes, including training conducted by our external legal advisers from time to time to update our management and staff on relevant Hong Kong laws and regulations, including the Companies Ordinance.

## BUSINESS

---

- (vi) Our Directors has been provided training on the new Companies Ordinance prepared by our Hong Kong legal advisers on 18 September 2014 to get themselves familiarised with the requirements under the new Companies Ordinance.
- (b) We appointed Mr. Liu Winson Wing Sun, our executive Director, as our compliance officer. From time to time, he will attend training relating to matters such as the latest compliance and regulatory requirement development on the Companies Ordinance, the Listing Rules and other laws, rules and regulations relevant to our Group. In case of potential non-compliance identified, he will report such matters to the Board in a timely manner. Furthermore, he will assist in the development, implementation and maintenance of our internal control policies and procedures. For further details concerning the qualifications of Mr. Liu Winson Wing Sun, please refer to the section headed “Directors, senior management and staff” of this [REDACTED];
- (c) We have established an audit committee which comprises three independent non-executive Directors, two of whom are independent non-executive director of other companies listed on the Stock Exchange (for the experience and qualifications of our independent non-executive Directors, please refer to the section headed “Directors, senior management and staff” of this [REDACTED]), to oversee the internal control procedures and accounting and financial reporting matters. The audit committee has also adopted its terms of references which set out clearly its duties and obligations for ensuring compliances with the relevant regulatory requirements.
- (d) We have appointed TC Capital as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with Rule 3A.19 of the Listing Rules; and
- (e) Our Directors have attended training conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Listing Rules.

Our Group will also engage external legal advisers and other advisers to render professional advice as to compliances with the statutory requirements as applicable to our Group from time to time to advise our compliance officer, compliance adviser and our Directors and senior management when considered necessary.

### ***Independent internal control assessment***

Our Director are responsible for formulation and overseeing the implementation of the internal control measures and effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance as a whole. In order to manage our external and internal risks and to ensure the smooth running of our business following the Listing, we have engaged an independent internal control adviser (the “IC Consultant”) in July 2014 to perform review procedures on our key procedures, systems and controls and to assist the Sponsor in

## **BUSINESS**

---

assessing the adequacy of the internal controls of our Group for amongst others, compliance with relevant legal and regulatory requirements. The IC Consultant is in the business of, amongst others, providing risk management, internal control and corporate governance advisory services to listed companies and listing candidates in Hong Kong. The IC Consultant has performed walkthrough and necessary control testing and, on that basis, made a number of recommendations to strengthen our Group’s corporate internal control, financial reporting and disclosure control and internal control over business processes. The IC Consultant performed a follow-up review in September 2014 and was satisfied that our Group has implemented the internal control measures according to their recommendations.

Having considered the enhanced internal control measures as set out above, our Directors are of the view that, and the Sponsor concurs, that the internal control measures adopted by our Group are adequate and effective to tackle the risk of future non-compliance with the relevant legal and regulatory requirements in Hong Kong (including without limitation the requirements under the Companies Ordinance).