

REGULATORY OVERVIEW

This section summarises certain aspects of the principal laws and regulations of Hong Kong which are relevant to our business and operations. As this is a summary, it does not contain the detailed analysis of the Hong Kong laws which are relevant to our business and operations.

LABOUR, HEALTH AND SAFETY

Due to the labour-intensive nature of our business, we are heavily regulated by laws and regulations of Hong Kong in terms of labour, health and safety.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

According to section 43C of the Employment Ordinance, if any wages become due to the employee who is employed by a sub-contractor on any work involving, inter alia, external cleaning of any building, dock or pier which the sub-contractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior sub-contractor jointly and severally. However, such payment of wages is recoverable from the sub-contractor pursuant to section 43F of the Employment Ordinance.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) ("MPFSO")

Under the MPFSO, employers are required to enroll their regular employees (except for certain exempt persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in the MPF scheme within the first 60 days of employment.

For both employees and employers, it is mandatory to make regular contributions into a registered MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK\$25,000 and HK\$7,100 per month, respectively before 1 June 2014 or HK\$30,000 and HK\$7,100 per month, respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK\$1,250 before 1 June 2014 or HK\$1,500 on or after 1 June 2014. An employer will also be required to contribute an amount equivalent to 5% of an employee's relevant income to the MPF scheme, subject only to the maximum level of income (HK\$25,000 per month before 1 June 2014 or HK\$30,000 on or after 1 June 2014).

MPF offset mechanism for certain payments under the Employment Ordinance

According to section 12 of the MPFSO, there is allowance for offsetting of payments for an employer who is liable to pay an employee severance payments or long service payments under the Employment Ordinance. The employer is entitled to apply for an offset of such payments with the accrued benefits derived from the employer's contribution made to a mandatory provident fund scheme for the employee. After paying the employee such payments, the employer may apply to the trustee of the mandatory provident fund scheme with supporting evidence for repayment of the relevant amount from the employee's accrued benefit derived from the employer's contributions. If the accrued benefits derived from the employer's contribution are insufficient to cover such payments payable by the employer, the employee is entitled to recover the difference from the employer.

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Offences and penalties for non-compliance with MPFSO

Contribution surcharge for mandatory contribution due

According to section 18 of the MPFSO, if the employer does not pay the mandatory contribution when it is due, he is liable to pay to the MPF Scheme Authority (the "MPFSA") as contribution surcharge an amount determined by multiplying the arrears by 5%.

Failure to contribute for employees on time

An employer must ensure that contributions in respect of each employee for each contribution period are paid to a registered MPF scheme on or before the contribution day (i.e. the 10th day of the following month). A non-complying employer is liable to a financial penalty of HK\$5,000 or 10% of the amount due, whichever is greater.

Failure to provide monthly pay-records to MPF scheme members

An employer must give monthly pay-records to relevant employees not later than 7 working days after the contribution payment. A non-complying employer is liable to a financial penalty of HK\$10,000 on the first occasion and up to HK\$50,000 for subsequent failures.

Failure to notify the registered MPF scheme of an employee's cessation of employment

An employer must inform the trustee of the relevant registered MPF scheme in writing of an employee's cessation of employment and the date on which the employment ceased or provide such information in the remittance statement for the contribution period that ends immediately following the employee's cessation of employment. A non-complying employer is liable to a financial penalty of HK\$5,000 on the first occasion and up to HK\$20,000 for subsequent failures.

Failure to notify the registered MPF scheme of change of employer's information

An employer must inform the trustee of the relevant registered MPF scheme in writing of changes in employer information such as company name, address and telephone number. A non-complying employer is liable to a financial penalty of HK\$5,000 on the first occasion and up to HK\$20,000 for subsequent failures.

Civil claims and criminal prosecution

The MPFSA may file a civil claim on behalf of employees to a court of competent jurisdiction to recover contributions in arrears and any surcharges. It may also initiate prosecution against employers, including their officers, directors and partners of the companies, who fail to comply with the MPFSO.

- (i) An employer who fails to enroll his/her/its employees in a registered MPF scheme is liable to a maximum penalty of a fine of HK\$350,000 and imprisonment for three years.
- (ii) An employer who fails to pay contribution for his/her/its employees is liable to a maximum penalty of a fine of HK\$350,000 and imprisonment for three years.

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- (iii) If an employer has deducted the employee's mandatory contributions from the wages of an employee but failed to pay them to a registered MPF scheme, he/she/it is liable to a maximum penalty of a fine of HK\$450,000 and imprisonment for four years.
- (iv) If an employer provides false or misleading information in pay-records given to employees, he/she/it is liable to a maximum penalty of a fine of HK\$100,000 and imprisonment for one year on the first conviction; and to a fine of HK\$200,000 and imprisonment for two years on each subsequent conviction.
- (v) If an employer provides false or misleading information to the trustee of the relevant registered MPF Scheme or the MPFSA, he/she/it is liable to a maximum penalty of a fine of HK\$100,000 and imprisonment for one year on the first conviction; and to a fine of HK\$200,000 and imprisonment for two years on each subsequent conviction.

Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

According to the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Further, pursuant to section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to sub-contractor's employees who are injured to the execution of the work which the subcontractor has contracted to perform. The principal contractor is nonetheless, entitled to be indemnified by the sub-contractor who would have been liable to pay compensation to the injured employee.

Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$37.5 per hour which remains and will continue to apply until 30 April 2023) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Immigration Ordinance (Chapter 115 of the Laws of Hong Kong)

Under the Immigration Ordinance, a person is lawfully employable if he holds the requisite visa or entry permit to work in Hong Kong, or has the right of abode or right to land in Hong Kong. Section 17I of the Immigration Ordinance provides that any person who is the employer of an employee who is not lawfully employable commits an offence and is liable to a fine of HK\$350,000 and to imprisonment for three years.

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Occupational Safety And Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- Providing and maintaining plant and work systems that do not endanger safety or health;
- Making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- Providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- Providing and maintaining safe access to and egress from the workplaces; and
- Providing and maintaining a safe and healthy work environment.

SECURITY AND GUARDING SERVICES ORDINANCE (CHAPTER 460 OF THE LAWS OF HONG KONG) ("SGSO")

The Security and Guarding Services Industry Authority (the "SGSIA") was established by the SGSO on 1 June 1995. Its functions include, in summary:

- (a) to consider and determine application made to it under the SGSO
- (b) to specify:
 - (i) the criteria that must be satisfied by a person before the Commissioner of Police (or any police officer acting under and in accordance with an authorisation conferred on him in writing by the Commissioner of Police) (the "**Commissioner**") may issue a Security Personnel Permit ("**SPP**") to him;
 - (ii) the conditions subject to which an SPP is to be issued;
 - (iii) the matters to which the Authority shall have regard when determining an application for a Security Company Licence ("**SCL**");
 - (iv) the criteria that must be satisfied before the Commissioner may grant a person an exemption from the SGSO; and
 - (v) the matters to which the SGSIA shall have regard when determining whether the SGSIA should specify any, if so what, period for the purpose of investigation in respect of the application for an SPP or SCL.

In accordance to the SGSO, the SGSIA has established regimes to regulate SPP (the "**SPP Regime**") and SCL (the "**SCL Regime**").

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SCL Regime

According to section 11 of the SGSO, only a company with an SCL (an “**SCL Company**”) shall supply, agree to supply, or hold himself out as supplying any individual to do security work for another person for reward. Such an individual must be a holder of a SPP that is valid for that type of work.

According to section 12 of the SGSO, no person shall authorise or require another person to do any type of security work for him unless the other person:

- (a) is a holder of a SPP that is valid for that type of work, an SCL Company, or an individual supplied by an SCL Company; or
- (b) is authorised or required to do the work otherwise than for reward.

According to sections 2 and 19 of the SGSO, SCL are issued only to companies incorporated under the Companies Ordinance, the former Companies Ordinance or any other Ordinance. SCL applications shall be made to the SGSIA.

According to Schedule 2 of the Security and Guarding Services (Licensing) Regulation (Chapter 460B of the Laws of Hong Kong), there are three types of security work for which a company may apply for an SCL:

Type I security work	Provision of security guarding services
Type II security work	Provision of armoured transportation services
Type III security work	Installation, maintenance and/or repairing of a security device and/or designing (for any particular premises or place) a security system incorporating a security device

Matters to which the SGSIA shall have regard when determining an application for an SCL

According to section 21(3) of the SGSO, the SGSIA shall issue an SCL only when it is satisfied that:

- (a) the applicant is a fit and proper person to supply individual to do security work of the type proposed;
- (b) any person who is a controller of the applicant is a fit and proper person to be a controller of a company that supplies individuals to do security work of the type proposed;
- (c) the security equipment and methods used or proposed to be used by the applicant are adequate; and

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- (d) the applicant's proposed method of supervising the individuals it supplies to do security work is suitable.

Furthermore, the SGSIA will also have regard to the following matters when determining application for an SCL for Type I security work:

- (a) the applicant must be a company registered in Hong Kong;
- (b) the applicant should have a sound financial background and be able to furnish an appropriate financial reference from a Hong Kong bank or similar institutions;
- (c) the controller(s), the directors and executives are of good character, having regard to his criminal record and other relevant factors;
- (d) the applicant is appropriately insured for the extent of its business subject to a minimum of HK\$10 million per incident for public liability. Insurance should also include employee compensation;
- (e) the applicant should have a place of business, the size, layout, and facilities of which is commensurate with its scale and nature of operations;
- (f) the applicant, if required by nature of its work, should have a control room of adequate size which meets the requirements of SGSIA;
- (g) the applicant, when monitoring remote alarms off site, should have a central alarm monitoring station (the "CAMS") which meets requirements of the SGSIA;
- (h) the armoury should, if required, in all respects, fully comply with the requirements as laid down in the Firearms and Ammunition Ordinance (Chapter 238 of the Laws of Hong Kong);
- (i) all personnel engaged in security work must have a valid permit;
- (j) the applicant must carry out its own employment vetting, which includes, where possible, employment history, reference check or other acceptable modes of character check and residential address check;
- (k) the applicant must have a nominated training officer responsible for the training of all operational staff;
- (l) all training must be held in a suitable training facility;
- (m) all employees, before performing operational duties, must undergo and pass an initial basic training course of not less than 16 hours (except when he produces a valid certificate issued to him in respect of a training course accepted by the SGSIA within 5 years);

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- (n) all employees deployed to operate a CAMS must undergo and pass relevant training in addition to that prescribed under item (m) above before performing related operational duties;
- (o) results of these courses must be recorded in the employee personnel files;
- (p) the applicant must maintain 2 full copies of assignment instructions for each duty post (one in management records and one at the duty area), which should cover, among others, name of the employer, address of the duty area, telephone procedures, action in emergencies, fire precautions and crime prevention;
- (q) the applicant must supervise all patrols on a shift basis through a minimum of one visit per week by supervisor from an off-site location if teleprotection is available, and one visit per shift if otherwise;
- (r) occurrence books must be maintained at every duty post;
- (s) all incidents must be recorded and investigated;
- (t) confidential documents no longer required must be shredded before being discarded; and
- (u) the applicant should have contingency plans for fire and other disasters.

Conditions for issuing a SCL

The issuance of SCL will be subject to the following conditions (together with any such conditions the SGSIA may impose):

The licensee must:

- (a) display its SCL in a prominent position inside its principal place of business;
- (b) only supply individuals to perform the type of security work as specified in its SCL;
- (c) enter its name and the period of employment on the SPP of security personnel under its employ;
- (d) notify the Commissioner in writing of:
 - (i) any criminal proceedings against the controller(s), directors and executives, and all SPP holders of the company within 14 days after the licensee has become aware of the institution of such proceedings;
 - (ii) the name of the persons whom it employs to do security work and the date on which the employment commenced within 14 days after the commencement of the employment; and

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(iii) the name of the persons whom it ceases to employ to do security work and the date on which the employment ceased within 14 days after the cessation of the employment (items (ii) and (iii) are collectively referred to as the "Notification Requirements");

(e) not act contrary to the requirements of its work as a security company.

A SCL is not assignable or transmissible, and is valid for five years (or such shorter period as the SGSIA may specify, and subject to payment of prescribed fee). An application for renewal of a SCL shall be made to the SGSIA not earlier than 6 months and not later than 3 months before the SCL is due to expire.

Penalties

Under section 31(1) of the SGSO, any person who operates a company which supplies, agrees to supply, or holds himself out as supplying any individual to do security work for another person for reward without a valid SCL commits an offence and is liable on conviction to a fine of HK\$100,000 and to imprisonment for 2 years.

Pursuant to section 31(2) of the SGSO, any person who fails to notify the Commissioner of the Notification Requirements (together with the relevant date of commencement/cessation giving rise to such Notification Requirements) commits an offence and is liable on conviction to a fine of HK\$10,000 and to imprisonment for 3 months.

SPP Regime

Under section 10 of the SGSO, no individual shall do, agree to do, or hold himself out as doing or as available to do, security work for another person unless he does so (i) under and in accordance with an SPP issued by the Commissioner in accordance with the SGSO; or (ii) otherwise than for reward.

As set out above, pursuant to section 12 of the SGSO, no person shall authorise or require another person to do any type of security work for him unless the other person, among others, is a holder of an SPP that is valid for that type of work, a holder of SCL, or an individual supplied by a holder of SCL.

Application for a SPP shall be made to the Commissioner. Under the SGSO, no SPP shall be issued to a body of persons, whether corporate or unincorporate.

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Under the current SPP Regime, the following are the four categories of security work in which a person holding an SPP may perform:

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| Category A | Guarding work restricted to a “single private residential building”, the performance of which does not require the carrying of arms and ammunitions |
| | <i>Note:</i> A “single private residential building” means an independent structure (i) covered by a roof and enclosed by walls extending from the foundation to the roof; (ii) used substantially for private residential purpose; and (iii) with only one main access point. |
| Category B | Guarding work in respect of any persons, premises or properties, the performance of which does not require the carrying of arms and ammunition and which does not fall within Category A |
| Category C | Guarding work, the performance of which requires the carrying of arms and ammunitions |
| Category D | Installation, maintenance and/or repairing of a security device and/or designing (for any particular premises or place) a system incorporating a security device |

Criteria for issuing a SPP

An SPP applicant has to satisfy the Commissioner that he is a fit and proper person to do a type of security work pursuant to section 14(5) of the SGSO.

Set out below are the major criteria in relation to a Category A and Category B of security work, which must be satisfied by a person before the Commissioner may issue to him an SPP under the SGSO to do that type of security work:

(A) Guarding work in respect of Category A

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| (i) Age | (i) The applicant must be 18 years of age or above on the date of application. |
| | (ii) If the applicant or SPP holder is 65 years of age or above, he must produce a medical certificate issued by a registered medical practitioner to certify that he is fit to undertake the duties required every 2 years. |
| (ii) Fitness | The applicant must be physically fit to perform the job. A medical certificate issued by a registered medical practitioner may be required if the Commissioner reasonably considers necessary. |

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- (iii) Good character The applicant must be of good character having regard to his employment history, criminal records and other relevant factors.
- (iv) Proficiency in security work The applicant must satisfy one of the followings:
- (i) He must have sat and passed a trade test recognised by the SGSIA and announced in a manner that it thinks fit, within 1 year before submitting his application; or
 - (ii) He must have not less than 3 years of cumulative working experience in performing security work lawfully in Hong Kong over the past 5 years immediately before submitting his application; or
 - (iii) He must have not less than 1 year of cumulative working experience in performing security work lawfully in Hong Kong over the past 2 years immediately before submitting his application; or
 - (iv) He must have sat and passed a course-end examination, within 1 year before submitting his application, of a security training course that has met the requirements of a scheme for quality assurance that has been endorsed by the SGSIA and announced in a manner that it thinks fit.

(B) Guarding work in respect of Category B

- (v) Age The applicant must be 18 years of age or above. The upper age limit for engaging in this type of security work is 70.
- (vi) Fitness The applicant must be physically fit to perform the job. A medical certificate issued by a registered medical practitioner may be required if the Commissioner reasonably considers necessary.
- (vii) Good character The applicant must be of good character having regard to his employment history, criminal records and other relevant factors.
- (viii) Proficiency in security work The applicant must satisfy one of the followings:
- (i) He must have sat and passed a trade test recognised by the SGSIA and announced in a manner that it thinks fit, within 1 year before submitting his application; or

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- (ii) He must have not less than 3 years of cumulative working experience in performing security work lawfully in Hong Kong over the past 5 years immediately before submitting his application; or
- (iii) He must have not less than 1 year of cumulative working experience in performing security work lawfully in Hong Kong over the past 2 years immediately before submitting his application; or
- (iv) He must have sat and passed a course-end examination, within 1 year before submitting his application, of a security training course that has met the requirements of a scheme for quality assurance that has been endorsed by the SGSIA and announced in a manner that it thinks fit.

Conditions for issuing an SPP

The issuance of an SPP is subject to the following conditions (together with any such conditions the Commissioner may impose).

The SPP holder must:

- (a) carry his SPP at all times when he is on duty;
- (b) produce his SPP for inspection on demand by any police officer;
- (c) notify the Commissioner in writing of:
 - (i) any change of employer, unless he is employed by a licensed security company; and
 - (ii) any institution of criminal proceedings against him, within 14 days after the relevant event has occurred;
- (d) only perform the type of security work as specified in his SPP;
- (e) not work over 372 hours per month and not normally work over 12 hours per day; and
- (f) not act contrary to the requirements of his duties as a security personnel or remiss in the execution of his duties.

An SPP is not assignable or transmissible, and is valid for a period of 5 years (or such shorter period as the Commissioner may specify). Holder of an SPP should apply to the Commissioner for renewal not earlier than 6 months and not later than 3 months before his SPP is due to expire.

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Penalties

Under section 31(2) of the SGSO, any person who does, agrees to do, or holds himself out as doing or as available to do, security work for another person for reward without a valid SPP commits an offence and is liable on conviction to a fine of HK\$10,000 and to imprisonment for 3 months.

As disclosed in the section headed “Risk Factors — Risks Relating to our Business” in this [REDACTED] document, IWS Security, a principal operating company of the Group, is a holder of SCL licensed to carry out Type I security work. In the event that our SCL is revoked, suspended or not renewed by the SGSIA, or if we experience material delays in renewing our SCL, our operation and business performance may be materially and adversely affected.

PROPERTY MANAGEMENT SERVICES

Licensing regime for property management services under Property Management Services Ordinance (Chapter 626 of the Laws of Hong Kong) (“PMSO”)

The Legislative Council enacted the PMSO on 26 May 2016. Save from section 6(1)(a), 6(2)(a) and 6(3)(a) of the PMSO, the Ordinance had substantially come into operation on 1 August 2020. To ensure a proper and smooth adaptation to the statutory change, there is a transitional period (“**Transitional Period**”) of three years commencing from the date of implementation of the licensing regime (i.e. from 1 August 2020 to 31 July 2023) during which property management companies (“**PMC**”) or property management practitioners (“**PMP**”) will not be required to be licensed. Upon the expiry of the Transitional Period, it will be a criminal offence to act as PMC or PMP without the relevant license under PMSO.

The Property Management Services Authority (the “**PMSA**”) was established on 24 October 2016 in accordance with section 42 of the PMSO and has since 1 August 2020 implemented the licensing regime concerning PMC and PMP to provide property management services. Further, PMSA is empowered to enforce the PMSO, issue codes of conduct and take disciplinary actions against PMC and PMP committing disciplinary offences. Pursuant to section 43 of the PMSO, its principal functions are:

- (a) to regulate and control the provision of property management services in Hong Kong by the licensing of PMC and PMP;
- (b) to promote the integrity, competence and professionalism of the profession of property management services; and
- (c) to maintain and enhance the status of the profession of property management services.

In addition to the principal functions of the PMSA, Part 7 of the PMSO also sets out the following details relating to the PMSA:

- (i) its powers of authority;

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- (ii) it is a self-financing statutory body and is not a servant or agent of the Hong Kong Government;
- (iii) immunity from civil liability in respect of acts done or omitted to be done by a member of the PMSA or a committee of the PMSA, an officer or employee of the PMSA and a person who is performing any service for the PMSA under a contract for services;
- (iv) a member of the PMSA and a member of a committee of the PMSA who is not also a member of the PMSA must disclose to the authority any interest he/she has which is of a class or description determined by the PMSA and register of such disclosure must be kept by the PMSA and be available for public inspection;
- (v) it may delegate any of its powers to (a) a committee of the PMSA; (b) the chief executive officer of the PMSA; or (c) the holder of any office in the PMSA, designated by the authority; and
- (vi) it must comply with a written direction for performing any of its functions given by the chief executive officer of the PMSA if he/she is satisfied that it is in the public interest to do so.

The PMSA is a self-financing body supported by income from licence fees and a fixed levy at HK\$350. Pursuant to Part 8 of the PMSO, transferees under conveyances on sale of immovable properties (both residential and non-residential) in Hong Kong are liable to pay a levy to the PMSA within a prescribed period of time. Late payment or non-payment of levy are subject to a penalty, the amount of which ranges from two to ten times of the original amount of the levy, depending on the length of delay. The PMSA may recover the amount of any levy or penalty payable as a civil debt due to it or register a certificate of levy and penalty in the Land Registry.

According to section 6(1) of the PMSO, no person may, without a property management company licence ("PMCL") issued in accordance with the PMSO, (i) act as a PMC; or (ii) claim to be a holder of a PMCL ("**PMCL Company**").

Under Schedule 1 of the PMSO, property management services are defined as services prescribed by the PMSA falling within the following categories:

- (i) general management services relating to a property;
- (ii) management of the environment of a property;
- (iii) repair, maintenance and improvement of a property;
- (iv) finance and asset management relating to a property;
- (v) facility management relating to a property;
- (vi) human resources management relating to personnel involved in the management of a property; and
- (vii) legal services relating to the management of a property.

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According to section 7(2) of the PMSO, a PMC whose business does not involve the provision of property management services that fall within more than one category of services in Schedule 1 of the PMSO does not require a PMCL.

According to section 8(1) of the PMSO, the PMSA may, on application, issue:

- (i) a PMCL;
- (ii) a PMP (Tier 1) licence (“**PMP (Tier 1) licence**”); or
- (iii) a PMP (Tier 2) licence (“**PMP (Tier 2) licence**”).

Only those PMP, as defined in section 2 of the PMSO as individuals who assume a managerial or supervisory role in a property management company in relation to property management services provided by the company, who take up a managerial or supervisory role in the provision of property management services are subject to licensing. Frontline staff are not required to obtain PMP licences. A PMP has to fulfill all licensing criteria and comply with the licence conditions. According to section 15(2)(b) of the PMSO, criteria for a PMP (Tier 1) licence or PMP (Tier 2) licence may include those relating to the person’s academic qualifications, professional qualifications and relevant work experience; and may impose more stringent requirements for a PMP (Tier 1) licence. The licensing criteria, and licence conditions are stipulated in the subsidiary legislation.

The PMSA also maintains a public register of licensees and issues codes of conduct to encourage conformance to a set of industry standards. The PMSA may also make regulations on:

- (i) the information to be contained in, and the documents to accompany, an application for a license or the renewal of a license;
- (ii) the fees payable in an application for a license or the renewal of a license;
- (iii) the criteria for holding a license;
- (iv) the fees payable for the issue of a license or renewed license; and
- (v) the conditions that may be imposed on a license or renewed license.

According to section 11(2) of the PMSO, in determining whether a person is a suitable person to hold a PMCL, the PMSA must have regard to the following in case of a company:

- (i) whether the company is in liquidation or is the subject of a winding-up order;
- (ii) whether a receiver has been appointed in relation to the company;
- (iii) whether, in the five years before the relevant application, the company has entered into a composition or scheme of arrangement with its creditors;
- (iv) whether the company has been convicted of a criminal offence (other than an offence under the PMSO) involving fraud or dishonesty;

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- (v) whether the company has been convicted of a disciplinary offence or a criminal offence under the PMSO; and
- (vi) whether every director of the company is a suitable person to be associated with the company's business of providing property management services.

Our Directors are of the view that it is likely that IWS PM will be able to meet the aforesaid requirements for the following reasons:

- (i) it is unlikely IWS PM will be in liquidation or is the subject of a winding-up order at the time of the application;
- (ii) it is unlikely that a receiver will be appointed in relation to IWS PM;
- (iii) it is unlikely that in the five years before the intended application, IWS PM has entered into a composition or scheme of arrangement with its creditors;
- (iv) it is unlikely that IWS PM will be convicted of a criminal offence involving fraud or dishonesty;
- (v) it is unlikely that IWS PM will be convicted of a disciplinary offence or a criminal offence under the PMSO; and
- (vi) every director of IWS PM is and is expected to be a suitable person to be associated with IWS PM's business of providing property management services.

During the Transitional Period, anyone meeting the relevant criteria may voluntarily apply for a license. Anyone acting as a PMC or a PMP without the relevant license during the Transitional Period will not be prosecuted. After the Transitional Period, any business entity carrying on the business of providing more than one category of property management services as listed out in Schedule 1 of the PMSO must hold a PMCL, and any individual assuming a managerial or supervisory role in all the property management services provided by such PMC to a property must hold a PMP license. Based on the knowledge of our Directors, we consider that the amount of licencing fees and related costs to be paid in the future by the end of the Transitional Period will not have a material impact on our financial position. Under the licensing regime of PMSO, PMCL Companies and PMPs will be under the scrutiny of the PMSA.

The property management of private properties in Hong Kong

The management of a private property in Hong Kong is regulated by the Building Management Ordinance and governed under the DMCS. The Building Management Ordinance provides the legislative framework setting out the rules and regulations for the incorporation of owners of units in buildings or groups of buildings and for the management of buildings or group of buildings.

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According to the Building Management Ordinance, an owners' corporation can be formed to deal with building management matters on behalf of all the owners. When an owners' corporation has been formed, the rights, powers, privileges and duties of the owners in relation to the common parts of the building shall be exercised and performed by the owners' corporation. In addition, the owner's corporation may decide whether to engage any paid staff member, property management company or other professional trade or person to assist in carrying out its duties or powers.

A DMC is a document registered with the Land Registry and sets out the rights, interests and obligations of the owners of the units in a building. In a typical situation, an owners' corporation or other owner/tenant body (such as an owners' committee or a mutual aid committee) would be established and a management committee would be elected to represent such body to work with and monitor the performance of the property manager.

In addition to providing property management services, the property manager is also required under the Building Management Ordinance to prepare annual budgets for the management expenses and prepare income and expenditure statements. Furthermore, the Code of Practice issued under the Building Management Ordinance stipulates, among other things, that the procurement of supplies, goods and services by the owners' corporation exceeding certain amounts specified thereunder should be conducted by way of tenders.

To promote the standards of the housing management profession in Hong Kong, the Hong Kong Institute of Housing Ordinance (Chapter 507 of the Laws of Hong Kong) (the "**HKIHO**") was enacted to recognise the qualifications of housing professionals. In addition, the Housing Managers Registration Ordinance (Chapter 550 of the Laws of Hong Kong) (the "**HMRO**") provides for the registration of professional housing managers who have achieved the qualifications and experience recognised by the Hong Kong Institute of Housing and for the disciplinary control of the professional activities of such registered managers.

The Home Affairs Bureau maintains a list of building management agents for the purpose of appointment of building management agents by Secretary for Home Affairs or by order of the Lands Tribunal in Hong Kong pursuant to the Building Management Ordinance.

Building management agents may be appointed by order of the Secretary for Home Affairs pursuant to the Building Management Ordinance. When it appears to the Secretary for Home Affairs in case of any building with a management committee that:

- (a) no person is, for the time being, managing that building;
- (b) the management committee has, in any material particular, failed substantially to perform the duties of a corporation under section 18 of the Building Management Ordinance; and
- (c) by reason of the circumstances mentioned in paragraphs (a) and (b), there is a danger or risk of danger to the occupiers or owners of the building,

the Secretary for Home Affairs may order that, within such reasonable period as shall be specified in the order, the management committee must appoint a building management agent for the purposes of managing that building.

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Building management agents may also be appointed by order of the Lands Tribunal in Hong Kong under certain limited circumstances specified in the Building Management Ordinance.

A person is eligible to be appointed as a building management agent if his name appears in a list of persons engaged in the business of the management of buildings compiled by the Secretary for Home Affairs from time to time.

Requirements for the procurement of supplies, goods and services by an owners' corporation

The procurement of supplies, goods and services (including the service for property management) by owners' corporations is regulated by the Building Management Ordinance. Pursuant to the Building Management Ordinance, the procurement of all supplies, goods or services required by an owners' corporation in the exercise of its powers and the performance of its duties under the DMC (if any) or the Building Management Ordinance shall be procured by invitation to tender if the value of service exceeds or is likely to exceed:

- (a) the sum of HK\$200,000; or
- (b) a sum which is equivalent to 20% of the annual budget of the owners' corporation, whichever is the lesser.

Whether the tender submitted for such purpose is accepted or not shall be decided by a resolution of the owners passed at a general meeting of the owners' corporation.

The above requirement for invitation to tender is exempted if:

- (a) the relevant supplies, goods or services are of the same type as any supplies, goods or services which are for the time being supplied to the owners' corporation by a supplier; and
- (b) the owners' corporation decides by a resolution of the owners passed at a general meeting of the owners' corporation that the relevant supplies, goods or services shall be procured from that supplier on such terms and conditions as specified in the resolution, instead of by invitation to tender.

The contract for the procurement of the relevant supplies, goods or services is not void by reason only that it does not comply with the above requirements. However, subject to order made by the Hong Kong court, the contract may be avoided, i.e. cancelled by the owners' corporation by a resolution of the owners passed at a general meeting of the owners' corporation, only for the reason that it does not comply with the above requirements. The Hong Kong courts may make such orders (including whether the service contract is void or voidable) and give such directions in respect of the rights and obligations of the contractual parties as it thinks fit having regard to various circumstances including whether the owners have benefited from the service contract and whether the owners have incurred any financial loss due to the service contract and the extent thereof.

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Unless and until the relevant service contract is cancelled by the owners' resolution at a general meeting of the owners, the service contract remains valid and enforceable, and each party is required to fulfil its obligations thereunder.

Apart from the Building Management Ordinance, the HKIHO, the HMRO and the PMSO, there is no other specific legislation in Hong Kong that governs the property management industry. However, property management is a multi-disciplinary business covering a wide variety of trades including the provision of maintenance and security services. The qualifications of the building services engineers, maintenance surveyors, technicians and security guards providing such services are subject to other various legislative requirements.

ELECTRICITY ORDINANCE (CHAPTER 406 OF THE LAWS OF HONG KONG) ("EO")

In the course of providing property management services to our clients, we carry out minor electrical repair and maintenance work, and thus are subject to relevant laws and regulations.

The EO provides that no person shall do personally or offer or undertake to do electrical work personally unless he is a registered electrical worker registered with the Electrical and Mechanical Services Department (the "EMSD") and who is entitled by his certificate to do the work (the "**Registered Electrical Worker**"). The EO imposes criminal penalties for persons contravening the registration requirements for doing business as an electrical contractor or doing electrical work.

Electricity (Registration) Regulations (Chapter 406D of the Laws of Hong Kong)

A registration for Registered Electrical Worker is valid for the three year period shown on the certificate of registration. Under Regulation 13 of the Electricity (Registration) Regulations, a Registered Electrical Worker shall apply to the director of the EMSD for renewal of his registration within one to four month prior to the date of expiry of the registration.

COMPETITION ORDINANCE (CHAPTER 619 OF THE LAWS OF HONG KONG)

Under the Competition Ordinance, anti-competitive conduct that prevents, restricts or distorts competition in Hong Kong is prohibited. The following arrangements are considered unlawful under the Competition Ordinance:

- (a) unprofitable pricing to gain market share and put pressure on the competitor's ability to compete;
- (b) tying (where one product can only be bought or used if another product is also bought);
- (c) bundling (two or more products offered together at a discount);
- (d) exclusive dealing arrangement or imposition of tougher pricing and terms for certain customers;

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- (e) sharing of pricing, information and agreement of practices or pricing through trade associations; and
- (f) joint ventures or tenders by competitors capable of bidding independently.

The Competition Commission established by section 129 of the Competition Ordinance (the “**Competition Commission**”) intends to enforce matters that provide the greatest overall benefit to consumers in Hong Kong so as to facilitate fair and healthy competition in the market. Section 39 of the Competition Ordinance empowers the Competition Commission to conduct an investigation into any conduct that constitute or may constitute a contravention of competition rule based on its own volition, complaints from public or referral by the Competition Tribunal established by section 134 of the Competition Ordinance or by the Hong Kong Government. According to the Guidelines on Investigations jointly issued by the Competition Commission and the Communications Authority established under the Communications Authority Ordinance (Chapter 616 of the Laws of Hong Kong), after becoming aware of any possible or potential contraventions, the Competition Commission will conduct an initial assessment. Only when the Competition Commission is satisfied, after the initial assessment, that there is a reasonable cause to suspect a contravention of a competition rule, will it exercise its investigation powers under section 39 of the Competition Ordinance. Any failure to comply with the Competition Commission’s investigation without reasonable excuse amounts to an offence punishable by a fine of up to HK\$200,000 and imprisonment of one year.

PREVENTION OF BRIBERY ORDINANCE (CHAPTER 201 OF THE LAWS OF HONG KONG)

The Prevention of Bribery Ordinance prohibits all forms of bribery and corruption. Any director or employee is prohibited from soliciting, accepting or offering any bribe in conducting a company’s business or affairs, whether in Hong Kong or elsewhere. In particular, in conducting all business or affairs of a company, the director or employee must comply with the Prevention of Bribery Ordinance and must not:

- (i) solicit or accept any advantage from others as a reward for or inducement to doing any act, abstaining from doing any act or showing favour in relation to the company’s business or affairs, or offer any advantage to an agent of another as a reward for or inducement to doing any act, abstaining from doing any act of showing favor in relation to his principal’s business or affairs;
- (ii) offer any advantage to any public servant, which, for the purpose of the Prevention of Bribery Ordinance, includes any employee of a public body, such as the HK Government Entities, as a reward for or inducement to his performing any act in his official capacity or his showing any favour or providing any assistance with the Hong Kong Government or public body;
- (iii) offer any advantage to any staff of any department under the Hong Kong Government or public body while he is having business dealing with the latter; or

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- (iv) offer any advantage to any other person as an inducement to or a reward for the withdrawal of a tender or the refraining from making of a tender for any contract with a public body or bidding at any auction conducted by any public body. Depending on the offence committed, the maximum penalties for the above offences under the Prevention of Bribery Ordinance range from fines of HK\$100,000 to HK\$500,000 and imprisonment for one year to 10 years.

In addition, under the common law, it is an offence to bribe a person performing a public duty or for such person to solicit or accept a bribe. It is also an offence at common law for person in public office to misconduct himself in the course of his duties. As such, any director or employee of a company is prohibited from conspiring with or soliciting a person in public office to misconduct himself in the course of performing his duties.

To the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, our Directors confirm that the Group was not informed by any party of any investigation against the Group or its employees or directors in relation to any contravention of the Prevention of Bribery Ordinance.