

BUSINESS

BUSINESS OVERVIEW

We are a wet trades contractor in Hong Kong. We were established in 2005 and have since undertaken wet trades works in the role of subcontractor. Our business is carried out by our two principal operating subsidiaries, Chan Kiu and Ying Wai. During the Track Record Period, the wet trades works performed by us mainly included plastering, tile laying, brick laying, floor screeding and marble works. According to the Industry Report, our Group ranked the first in the Hong Kong wet trades works subcontracting market in terms of revenue in 2021, and accounted for approximately 4.0% of the market share in 2021.

We were mainly engaged in private sector projects in Hong Kong. Our private sector projects mainly involved private residential developments and commercial developments. The project owners of our private sector projects were generally property developers, and our customers were main contractors engaged under such projects. To a lesser extent, we were also engaged in public sector projects in Hong Kong. Our public sector projects mainly involved public residential developments as well as infrastructure and public facilities developments. The customers of our public sector projects were generally main contractors engaged by Government departments and statutory bodies.

During the Track Record Period, the majority of our revenue was derived from wet trades works for residential developments. The following table sets forth a breakdown of our revenue, gross profit and gross profit margin during the Track Record Period by reference to project sectors and types of development involved:

	No. of projects	FY2018/19			Gross profit margin %	No. of projects	FY2019/20			Gross profit margin %
		Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000			Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000	
Private sector										
– Residential	23	355,719	79.4	18,735	5.3	25	425,654	82.9	36,707	8.6
– Commercial	5	3,141	0.7	221	7.0	5	933	0.2	65	7.0
Sub-total	28	358,860	80.1	18,956	5.3	30	426,587	83.1	36,772	8.6
Public sector										
– Residential	8	43,121	9.6	4,436	10.3	9	42,932	8.4	4,269	9.9
– Infrastructure and public facilities	4	45,939	10.3	8,119	17.7	8	43,635	8.5	4,960	11.4
Sub-total	12	89,060	19.9	12,555	14.1	17	86,567	16.9	9,229	10.7
Total	40	447,920	100.0	31,511	7.0	47	513,154	100.0	46,001	9.0

BUSINESS

	FY2020/21					FY2021/22				
	No. of projects	% of total		Gross profit	Gross profit margin	No. of projects	% of total		Gross profit	Gross profit margin
		Revenue	revenue				Revenue	revenue		
	HK\$'000	%	HK\$'000	%		HK\$'000	%	HK\$'000	%	
Private sector										
– Residential	31	253,783	57.6	23,771	9.4	28	285,993	62.7	32,918	11.5
– Commercial	6	102,329	23.3	17,536	17.1	11	90,066	19.7	10,914	12.1
Sub-total	37	356,112	80.9	41,307	11.6	39	376,059	82.4	43,832	11.7
Public sector										
– Residential	4	56,531	12.8	7,428	13.1	5	1,934	0.4	527	27.2
– Infrastructure and public facilities	10	27,726	6.3	5,187	18.7	13	78,439	17.2	13,329	17.0
Sub-total	14	84,257	19.1	12,615	15.0	18	80,373	17.6	13,856	17.2
Total	51	440,369	100.0	53,922	12.2	57	456,432	100.0	57,688	12.6

Our Group’s revenue for private commercial projects increased from approximately HK\$0.9 million for FY2019/20 to approximately HK\$102.3 million for FY2020/21. The increase in revenue was mainly attributable to the substantial amount of wet trades works we had performed for Project #07, which contributed approximately HK\$72.8 million in revenue for FY2020/21 (FY2019/20: approximately HK\$49,000). For further details, please refer to the paragraph headed “Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” in this document.

Our Group’s revenue decreased from approximately HK\$513.2 million for FY2019/20 to approximately HK\$440.4 million for FY2020/21. The decrease in revenue was mainly driven by (i) the decrease in the overall market opportunities in the wet trades works industry in Hong Kong which was mainly attributable to the temporary impact of the outbreak of COVID-19 in 2020; (ii) Project #03 and Project #06 contributed a relatively lower revenue for FY2020/21, as compared to FY2019/20; and (iii) some projects had been substantially completed in FY2019/20 while new projects with large contract sum were awarded or commenced works after the third quarter of 2020 onwards. For further details, please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations – FY2020/21 compared with FY2019/20” in this document.

Our Group’s revenue increased to approximately HK\$456.4 million for FY2021/22. The increase in revenue was mainly driven by the increase in the amount of works performed by our Group in some of our ongoing sizeable projects, including Project #16, a private residential project in Wong Chuk Hang, which contributed approximately HK\$61.4 million to our revenue during FY2021/22 (FY2020/21: approximately HK\$6.9 million).

BUSINESS

During the Track Record Period, we had a total of 97 projects with revenue contribution to us. As at the Latest Practicable Date, we had 41 projects on hand. For further details, please refer to the paragraph headed "Projects on hand" below in this section.

We have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. Typically, our major responsibilities in a project include (i) arranging site preparatory and preliminary works; (ii) engaging and supervising our subcontractors; (iii) monitoring the implementation of site works; (iv) conducting site safety supervision and quality control; and (v) developing detailed work schedule and work allocation plan.

Given that all the necessary licences, permits or approval required for projects in which we are involved are arranged by the relevant main contractors, there is no particular licence, permit or approval required to be obtained by us in providing wet trades works services as a subcontractor under private sector projects except the business registration. Meanwhile, subcontractors engaged under public sector projects initiated by the Government are generally required to possess registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. Both of our principal operating subsidiaries, Chan Kiu and Ying Wai, are currently registered specialist trade contractors in the designated trade category of plastering (Group 2) under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council. We were first admitted to the Subcontractor Registration Scheme (now known as the Registered Specialist Trade Contractors Scheme) in 2006. For further details, please refer to the paragraph headed "Licences and qualifications" below in this section.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials and toolings; and (iii) suppliers of other miscellaneous services such as machinery rental and repair and maintenance services.

Over the years, we are able to maintain stable relationships with our customers and subcontractors. As at the Latest Practicable Date, we had established business relationship with three of our top customers for over nine years and four of our top subcontractors for over five years.

As we focus on the role of project management and supervision, the site works in our projects, which are labour intensive in nature, are mainly undertaken by our subcontractors. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we incurred subcontracting fees of approximately HK\$372.3 million, HK\$412.3 million, HK\$333.6 million and HK\$332.9 million, representing approximately 94.8%, 92.8%, 91.5% and 89.2% of our total purchase, respectively.

Depending on the contract terms agreed with our customers, materials and toolings may be (i) procured by us at our cost; (ii) provided by our customers at their cost; or (iii) procured by our customers for our use and such costs will be subsequently deducted in the relevant payment certificates issued to us. When subcontractors are engaged by us, materials are (i) provided by our subcontractors at their cost; or (ii) procured by us at our cost; or (iii) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted

BUSINESS

from our payment to our subcontractors. The major types of materials that we required included Portland cement, hydraulic lime, concrete blocks, aggregates and sand and the major toolings that we required included personal protective equipment, parts and components for plaster spray machines and other wet trades works ancillary tools.

According to the Industry Report, the demand for wet trades works will continue to grow at a CAGR of 6.6% from 2022 to 2026, reaching a gross value of approximately HK\$15.6 billion in 2026. Driven by (i) the construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che which is expected to accommodate more than 50,000 household residential units in both public and private sectors; (ii) the housing supply target for the 10-year period from 2021–22 to 2030–31 of 430,000 units according to the Long Term Housing Strategy issued in 2020; and (iii) the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address, the gross value of wet trades works is expected to maintain a steady growth. With our experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for wet trades works in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed “Industry overview” in this document.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We have an established track record in the wet trades industry in Hong Kong

The history of our Group can be traced back to 2005, when Mr. KS Chan and Mr. WP Chan established Ying Wai, being the first subsidiary of our Group. According to the Industry Report, our Group ranked the first in the Hong Kong wet trades works subcontracting market in terms of revenue in 2021, and accounted for approximately 4.0% of the market share in 2021. In our operating history of over 15 years, we have focused on providing wet trades works services in the role of subcontractor and built up our expertise and track record in wet trades works. Ying Wai and Chan Kiu, being our principal operating subsidiaries, were first admitted to the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council in 2006 and 2010, respectively.

We take pride in our project portfolio in wet trades works for residential projects. We obtained our first residential project in 2007. During the Track Record Period, the majority of our revenue was derived from wet trades works for residential developments, which accounted for approximately 89.0%, 91.3%, 70.4% and 63.1% of our total revenue for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. In recent years, we have provided wet trades works services for various residential developments initiated by some of the leading private residential property developers in Hong Kong. During the Track Record Period, we had undertaken wet trades works for more than ten private sector residential and commercial developments initiated by four of the five leading private property developers in Hong Kong according to the Industry Report (in terms of number of

BUSINESS

property completion in Hong Kong in 2021). According to the Industry Report, it is a key trend for home buyers to employ clerk of works to undertake inspection works for newly purchased flats. As property developers strive to maintain their industry reputation, demand for quality wet trades works has thus increased in order to fulfil the interior design and inspection requirement. Leveraging our proven track record and established customer network, we believe that the demand for our services will likely to continue to increase in the future.

Our commitment to service quality has been well recognised in the construction industry. Chan Kiu was recognised as an accredited sub-contractor by the Hong Kong Professional Building Inspection Academy in relation to a wet trades works project for a private residential development at Lee Tung Street, Wan Chai under the categories of plastering and tiling in March 2016 and a wet trades works project for a private residential development at Kai Tak under the category of plastering in March 2018, and was awarded the 2016 Best Safety Sub-contractor Award (Bronze) (2016年度最佳安全分判獎(銅獎)) from Customer Group A in relation to a wet trades works project for a private residential development at Castle Peak Road, Tuen Mun in 2016. Ying Wai was awarded the Good Safety Performance Contractor Commendation Certificate (良好安全表現承判商嘉許狀) from Customer Group D in relation to a wet trades works project for an institutional development in Shatin in February 2017, and was further awarded the Quality Public Housing Construction and Maintenance Award (New Works Projects – Outstanding Contractors – Domestic Sub-contractors) in the plastering and tiling category from the Housing Authority in November 2017. We believe that our proven track record of quality works, our expertise in wet trades operations and our ability to deliver works on time are the crucial factors that enable us to gain trust from our existing customers and give us a competitive edge when tendering for projects.

We have established long-term relationship with some of our major customers

We have established long-standing relationships with some of our major customers. As at the Latest Practicable Date, we had established business relationship with three of our top customers during the Track Record Period for over nine years. In particular, our Group has been conducting business with each of Customer Group A and Customer Group D for over 15 years. Based on the Industry Report, in terms of annual turnover in 2021, Customer Group A is one of the largest construction contractors in Hong Kong, while Customer Group D is a major construction contractor for public sector construction works in Hong Kong. The parent companies of these two major customers are both reputable companies listed on the Stock Exchange. We believe that these two major customers regard us as their preferred business partner and the long-standing relationships with us is attributable to their confidence in our ability to consistently deliver quality service over the years of business cooperation.

Leveraging our working experience with sizeable customers, we have accumulated the know-how and expertise in meeting the quality standards of other potential customers. During the Track Record Period, we have started conducting businesses with more than ten sizeable construction contractors (including but not limited to Sanfield, Customer F, Customer Group H, Customer I and First Group) and obtained a number of large scale

BUSINESS

projects from some of them. For example, we obtained two sizeable private residential projects, namely Project #12 and #13, with adjusted contract sum of approximately HK\$48.8 million and HK\$42.5 million, from Customer F and Customer I, respectively. Attributed to our industry reputation and extensive experience of working with sizeable customers, we believe that not only can we attract opportunities to work on different types of construction developments, but also enhance our prospect in obtaining tender opportunities from our potential customers.

Our executive Directors consider that our major customers, being active construction contractors in Hong Kong, would have substantial demands for wet trades works services from subcontractors which are capable of providing reliable and quality services and with which it has long-standing relationship. We believe that maintaining a stable customer network enables us to have more tender opportunities and thus places us in an advantageous position in obtaining new businesses.

We have established stable relationships with some of our major subcontractors

We keep a pre-approved list of subcontractors to ensure that our subcontractors possess the relevant qualifications and we have established stable relationships with some of our major subcontractors. As at the Latest Practicable Date, seven of our major subcontractors during the Track Record Period had been working with us for over five years. With our established relationships with these subcontractors, we believe that not only can we undertake projects of various scale and fulfil the specifications and requirements of different customers, but also ensure stable and timely delivery of services from our subcontractors.

In addition, attributed to our strong financial capability, we have maintained a track record of timely payment to our subcontractors. We have not adopted any “pay when paid” policy with our subcontractors. During the Track Record Period, our trade receivables turnover days were within the range of approximately 22.2 to 36.6 days, while our trade payables turnover days were within the range of approximately 17.0 to 24.7 days. In other words, we generally pay our subcontractors before payment by our customers. For instance, as at 31 March 2022, our trade payables amounted to approximately HK\$28.7 million, all of which had been subsequently settled up to the Latest Practicable Date. According to the Industry Report, wet trades subcontractors generally prefer to work for customers who are able to settle their payments on time as this could facilitate their project planning and liquidity management. We believe our good payment history distinguishes us from our competitors and help us to attract and retain high quality subcontractors.

Our executive Directors consider that our track record of timely payment to our subcontractors enables us to develop a long-term and stable relationship with our major subcontractors which in turn provides us with a pool of readily available site workers and facilitates us in delivering quality services on a timely basis that are crucial to our Group’s day-to-day operations and future business developments.

BUSINESS

Our management team is experienced and dedicated

Our management team has extensive industry knowledge and project experience in the wet trades works industry in Hong Kong. Mr. KS Chan, the chairman of our Board, chief executive officer of our Group, executive Director and one of our founders, has over 30 years of experience in the wet trades works industry. Mr. KS Chan is primarily responsible for the overall management, formulation of business strategies, project management and day-to-day management of the operations of our Group. Mr. WP Chan, an executive Director and one of our founders, has over 20 years of experience in the wet trades works industry. Mr. WP Chan is primarily responsible for the overall project management and day-to-day management of the operations of our Group. Mr. KS Chan and Mr. WP Chan have been appointed as the president and a council member of The Association of Plastering Sub-Contractors Limited, respectively, since 2015. Our executive Directors are supported by our project management team consisting of 43 personnel as at 31 March 2022, who possess practical skills and experience as required in handling our projects. For example, Mr. Lai Wai Hung, our project manager and a member of our senior management, has over 10 years of experience in the wet trades works industry. For further details regarding the background and experience of our management team, please refer to the section headed “Directors and senior management” in this document.

Under the leadership of Mr. KS Chan and Mr. WP Chan, we have a strong and dedicated execution team in liaising with our existing and potential customers for their needs and market trends. In particular, we maintain frequent interactions with our customers for their feedbacks on the quality of our services. Our executive Directors believe that our management’s technical expertise and professional knowledge of the industry have been our Group’s valuable assets and will continue to strengthen our competitiveness in the industry.

We impose a stringent quality control and environmental impact control

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Our quality management system has been certified to satisfy the requirement of ISO 9001:2015. Further, we have also set up an environmental management system to promote environmental awareness and to prevent pollution of the environment resulting from projects undertaken by us, and our environmental management system has been certified to satisfy the requirements of ISO 14001:2015. Our executive Directors believe that our stringent quality assurance system and strong commitment to environmental management will allow us to be better positioned to deliver quality works on time and within budget, thereby strengthening our position as a wet trades works contractor in Hong Kong.

BUSINESS

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong wet trades industry. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional wet trades works projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand.

Taking into consideration (i) our competitive strengths set out in the paragraph headed "Competitive strengths" above in this section; and (ii) the forecasted growth of wet trades industry in Hong Kong as provided in the Industry Report, our executive Directors believe that our Group would be able to capture the potential business opportunities associated with the forecasted increase in demand for wet trades industry as discussed in the paragraphs below if we continue to increase our available resources.

In this connection, our key business strategies are as follows:

Competing for wet trades works projects and expanding our market share

According to the Industry Report, driven by (i) the construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che which is expected to accommodate more than 50,000 household residential units in both public and private sectors; (ii) the housing supply target for the 10-year period from 2021–22 to 2030–31 of 430,000 units as stated in the Long Term Housing Strategy issued in 2020; and (iii) the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address, it is expected that the gross value of wet trades works in Hong Kong will further increase from approximately HK\$12.1 billion in 2022 to approximately HK\$15.6 billion in 2026, representing a CAGR of approximately 6.6% from 2022 to 2026. As such, our executive Directors believe that our Group should focus on deploying our resources towards competing for additional and more sizeable wet trades works projects in Hong Kong. However, the number of projects that can be executed by our Group concurrently at any given time is constrained by our then available resources, including the availability of our manpower, machinery and working capital.

During the Track Record Period, we had experienced significant growth in our business operations which was mainly attributable to the increase in number and scale of wet trades works projects undertaken by us. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we undertook 40, 47, 51 and 57 projects which derived revenue of approximately HK\$447.9 million, HK\$513.2 million, HK\$440.4 million and HK\$456.4 million, respectively. The backlog value of our projects on hand as at 31 March 2022 was approximately HK\$758.1 million, which was higher than our backlog value as at 31 March 2021 (i.e. approximately HK\$548.1 million), 31 March 2020 (i.e. approximately HK\$373.9

BUSINESS

million) and 31 March 2019 (i.e. approximately HK\$476.1 million). In light of the aforesaid, our executive Directors believe that our Group will be able to undertake additional projects on top of our present scale of operation and our current projects on hand if we are able to continue to increase our available resources, including our manpower, machinery and financial resources.

In addition, our executive Directors consider that the [REDACTED] will enhance our corporate profile and credibility which will enable our Group to be considered more favourably by our existing and potential new customers, given that a [REDACTED] company is subject to ongoing regulatory compliance for announcements, financial disclosure and corporate governance. According to the Industry Report, except for our Group, two of the top five leading wet trades works subcontractors in Hong Kong by revenue in 2021 are companies [REDACTED] on the Stock Exchange, and hence we believe that having a public [REDACTED] status would strengthen our market position among the top players in the wet trades industry. Based on the above, our executive Directors consider that upon our successful [REDACTED], our Group will have greater exposure to potential opportunities, and our competitiveness for wet trades works projects will increase accordingly.

During the Track Record Period, our Group experienced an increase in demand for our wet trades works services as evidenced by the growing number of tender invitations received by us from both new potential customers and existing customers. Upon receipt of tender invitations from our customers, our executive Directors would generally take into consideration, amongst other factors, our available financial resources and project supervision staff to determine whether we should proceed with the preparation of tender. During the Track Record Period, our Group had adopted a proactive approach in tender submission to capture more potential business opportunities in the wet trades works industry, resulting in a significant increase in the number of tenders submitted by us during the same period. The number of tenders submitted by us increased from 86 for FY2018/19 to 111 for FY2021/22. For FY2018/19, FY2019/20, FY2020/21 FY2021/22, our tender success rate was approximately 14.0%, 21.6%, 12.6% and 18.0%, respectively. As at the Latest Practicable Date, our Group had a total of 42 submitted tenders with an aggregate estimated tender amount of approximately HK\$1.6 billion that were still undergoing tender selection process and pending tender results.

Besides, we have made consistent effort in expanding our customer base. For example, we obtained two sizeable private residential projects, namely Project #12 and #13, with adjusted contract sum of approximately HK\$48.8 million and HK\$42.5 million, from Customer F and Customer I, being our new customers during the Track Record Period, respectively. Besides, we have also actively sought opportunities in undertaking additional wet trades works projects from different customers. In August 2021, we have obtained two projects, namely Project O13 and O14, with estimated contract sum of approximately HK\$32.8 million and HK\$16.6 million, respectively, from Customer C, which is a multi-national construction company.

BUSINESS

Taking into consideration (i) our ability to maintain our tendering performance at a satisfactory level along with our proactive tendering strategy; and (ii) our ability in expanding our customer base, our executive Directors consider that there will be a strong demand for our wet trades works services.

Adhering to prudent financial management to ensure optimal finance costs and capital sufficiency

(I) Financial requirements for the project up-front costs of our potential as well as newly awarded projects

According to the Industry Report, market participants without sufficient experience, capital and financial resources are less likely to be considered in the tender selection process. Therefore, wet trades contractors with stronger financial standing and cash flow liquidity are able to tender for more and large scale projects. In view of the aforesaid, our executive Directors believe that our expansion of service capacity and business growth have to be supported by sound financial position and sufficient financial resources. A strong capital base is essential to cope with increased turnover and support capital intensive wet trades works projects.

According to the Industry Report, wet trades contractors generally experience net cash outflows as project up-front costs at the early stage of a project. The up-front costs of our projects generally include costs incurred at the early stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and toolings and machinery rental costs. As advised by F&S, while the nature and quantum of project up-front costs incurred varies from project to project, the average amount of up-front costs incurred for wet trades works project is generally within the range of approximately 10% to 25% of the contract sum and may vary depending on the size and the duration of the project, the payment practice of different contractors and the relationship between the relevant parties involved. Further, we generally continue to experience net cash outflow even after the first payment received from our customers due to the time lag between the receipt of progress payment from our customers and payments to our subcontractors and other suppliers. Based on our experience, the amount of cash inflow received from our customers over the duration of a project generally exhibits an increasing trend at the early stages up to the peak amount of works, while the costs incurred by us typically experienced a less-than-proportionate increase over the period. Accordingly, our cash flows typically turn from net cash outflows into net cash inflows gradually as the project progresses.

Based on our operation history during the Track Record Period and depending on the scale of the projects, the average timeframe between (i) the time when we first incurred the up-front costs; and (ii) the time when we first generate positive monthly cash flow in respect of the project is on average seven months (the "**Up-front Period**"). Depending on our terms of engagement with different customers, in respect of the top projects undertaken during the Track Record Period, the total amount of up-front costs incurred by our Group

BUSINESS

during the Up-front Period represented on average 20% of the contract sum of the project. The specific amount of up-front costs incurred may vary from project to project, depending on the party being responsible for the procurement of materials, the schedule of project implementation and the length of our relationships with the relevant customers.

Our Group had 41 projects on hand as at the Latest Practicable Date. Out of our 41 projects on hand, (i) Project O14 and O17, with aggregated contract sum of approximately HK\$61.7 million, had been awarded to us and are expected to commence in or around the third quarter of 2022; and (ii) Project O18, O19, O20 and O22, with aggregated contract sum of approximately HK\$382.3 million, have commenced site preparatory and preliminary works as at the Latest Practicable Date, with a substantial part of works under these projects expected to be performed in or around the third or fourth quarter of 2022. Based on the assumption that the amount of up-front costs to be incurred by our Group during the Up-front Period represented on average 20% of the contract sum of these projects, it is expected that Project O14, O17 to O20 and O22 will incur up-front costs of approximately HK\$88.8 million during the Up-front Period in aggregate. Based on our operation history during the Track Record Period and depending on the scale of the projects, we generally start incurring a substantial portion of the up-front costs around three to four months after the commencement of the projects. Accordingly, based on the tentative project timeline available, we anticipate that we will start incurring substantial portion of the up-front costs for Project O14, O17 to O20 and O22 from the third or fourth quarter of 2022 onwards.

As at the Latest Practicable Date, our Group had 42 submitted tenders which were still undergoing tender selection process and pending tender result. Out of these 42 tenders, our executive Directors are positive that we shall be able to secure at least three projects, namely Project T01 to T03 (the “**Identified Projects**”), taking into consideration the latest negotiation with the relevant customers. For further details of the Identified Projects, please refer to the paragraph headed “Future plans and use of [REDACTED] – Use of [REDACTED]” in this document. Based on tender information available from the relevant customers and the estimated work schedule, it is expected that the Identified Projects will commence in or around the third quarter of 2022. Based on the assumption that the amount of up-front costs to be incurred by our Group during the Up-front Period represented on average 20% of the contract sum of these projects, it is estimated that we will incur approximately HK\$62.8 million as up-front costs for the Identified Projects in aggregate. In order to ensure our Group is equipped with the financial resources necessary for undertaking these Identified Projects, our executive Directors consider that there is an imminent need for our Group to further strengthen our financial resources to support the financial needs of these projects.

Based on the aforesaid, we believe that the [REDACTED] from the [REDACTED] will strengthen our available financial resources, thereby allowing us to undertake more projects by applying a portion of the [REDACTED] for satisfying our up-front costs. We currently plan to apply part of our [REDACTED] from the [REDACTED] towards fulfilling the relevant up-front costs of (i) four of our projects on hand, namely Project O18 to O20 and O22, which have commenced site preparatory and preliminary works as at the Latest Practicable Date, with a substantial part of works under these projects expected to be

BUSINESS

performed in or around the third or fourth quarter of 2022; and (ii) two of our projects on hand, namely Project O14 and O17, that are expected to commence in the third quarter of 2022 (collectively, the “**Designated Projects**”). Where any surplus remains after the up-front costs required by the Designated Projects are satisfied, we intend to apply such surplus towards fulfilling a portion of the relevant up-front costs of three tendered projects, namely Project T01 to T03, of which our executive Directors are positive that we shall be able to secure. For further details of these projects, please refer to the paragraph headed “Future plans and use of [REDACTED] – Use of [REDACTED]” in this document.

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong wet trades industry. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional wet trades works projects on top of our present scale of operation and our current projects on hand. Our success in achieving our principal business objective is largely underpinned by our financial resources available for financing the up-front costs to be incurred from the projects obtained by us. Given a portion of the [REDACTED] from the [REDACTED] has been designated for satisfying the up-front costs of the Identified Projects as well as our projects on hand that are expected to commence in the near future, the cash flow generated from our operations could be applied towards financing any additional projects to be obtained by us, thereby allowing us to tender for additional and more sizeable projects more proactively.

In the event we could not obtain additional external funding, our internal financial resources available will be largely utilised for financing the up-front costs to be incurred from the Identified Projects as well as our projects on hand that are expected to commence in the near future. Being limited by our financial resources available for financing the up-front costs of additional projects, we may refrain from tendering for additional projects or responding to our customers’ tender invitations which does not only hinder our business expansion, but will also likely to be perceived negatively by our customers, thereby adversely affecting our business relationship with them.

(II) Financial requirements for our daily operations

During the Track Record Period, our Group incurred average monthly expenses of approximately HK\$35.8 million, primarily comprising staff cost, subcontracting fees, cost of materials and toolings, machinery rental costs, administrative expenses and other miscellaneous expenses for our daily operations. Taking into consideration the estimated upfront costs for our (i) newly awarded projects (namely Project O14 and O17); (ii) projects which have commenced as at the Latest Practicable Date with a substantial part of works expected to be performed in or around the third or fourth quarter of 2022 (namely Project O18, O19, O20 and O22); and (iii) our tendered projects for which our executive Directors are confident that we will be able to secure (namely Project T01 to T03), it is expected that the average monthly expenses to be incurred by us will further increase in the near future.

BUSINESS

During the Track Record Period, we financed our monthly expenses mainly with net cash generated from operating activities. To a certain extent, Mr. KS Chan, our executive Director and Controlling Shareholder, had also made cash advances to our Group from time to time to strengthen our working capital. As at 31 March 2019, 2020, 2021 and 2022, our Group recorded amount due to Mr. KS Chan of approximately HK\$27.9 million, HK\$23.0 million, HK\$15.3 million and HK\$10.7 million, respectively. All amounts due by our Group to Mr. KS Chan will be settled or capitalised before [REDACTED]. In order to lower our reliance on and strengthen our financial independence from our Controlling Shareholders, our executive Directors consider that it is of vital importance to strengthen our financial resources in order to support the financial needs for our daily operations and business expansion.

The amount of up-front costs incurred by us may vary from project to project. In respect of our top projects undertaken during the Track Record Period, the total amount of up-front costs incurred by our Group during the Up-front Period represented on average 20% of the contract sum of the project. In assessing the up-front costs required, we have taken into account the accumulated cash inflow generated from the projects and the accumulated cash outflow for our cost incurred. On this basis, it generally took us an average of seven months to start receiving net positive cash flow from our projects. Given that (i) the cash inflow generated from the projects are generally insufficient to meet the outflow for our cost incurred during the Up-front Period, and (ii) the Up-front Period last for seven months on average, our executive Directors do not consider working capital recycling as a viable option to maintain our current business operation and at the same time support us to continue tendering for additional and sizeable projects when suitable opportunities arise.

In addition, there are often time lags between making payment to our suppliers and receiving payment from our customers during project implementation, resulting in possible cash flow mismatch. Our Group generally incurs costs before or along with the performance of our works as we have to pay our suppliers for procuring the necessary materials and toolings required for performing our wet trades works and our subcontractors for carrying out the wet trade works on site. Meanwhile, our customers generally make progress payments according to our works performed, and such payments are required to be certified by our customers before we issue an invoice to our customers. It generally takes time for our customers to certify our progress payments and for us to issue an invoice. Further, we generally grant our customers a credit term of 14 to 60 days from the issue of invoices. Hence, there may be a timing difference up to several months between the time we incur costs for performing our wet trades works and by the time when we receive payments from our customers for performing such works. In this regard, for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our trade receivables and contract assets turnover days were approximately 73.6 days, 96.3 days, 127.7 days and 124.2 days, which generally represented the timeframe since we performed works and up to the settlement of our invoice for the relevant works. Meanwhile, our trade payables and accruals for subcontractors' labour costs turnover days were 27.5 days, 28.0 days, 32.0 days and 34.2 days, which generally represented the timeframe since we received goods or services from our suppliers and up to our settlement of payment to them. This demonstrates that it generally takes a significantly longer period for us to receive payment from our customers,

BUSINESS

as compared to the time it took us to settle our payments to suppliers. Accordingly, we may experience cash flow mismatch from time to time as our projects progress, which largely depend on (i) the certification process of our customers; (ii) our customers' internal process for approving our invoices; (iii) the credit terms granted to us by our suppliers; and (iv) the number and scale of our projects in progress. The liquidity needs of our projects would therefore impose a constraint on the number and scale of the projects which we could undertake concurrently if we solely rely on our operating cash flow to support our expansion.

Depending on the contract terms, our customers may also hold up a certain percentage of each payment made to us as retention monies. Our customers may withhold up to 10% of each of our progress payment as retention monies and subject to a cap of 5% of the total contract sum. Depending on the contract terms, half of the retention monies are generally released upon completion of our works to the satisfaction of the main contractor or project owner. The remaining half is generally released upon expiry of the defects liability period of the relevant contracts. In respect of our retention receivables of approximately HK\$57.7 million as at 31 March 2022, approximately HK\$26.8 million, equivalent to approximately 46.4%, will only be recovered after 31 March 2023; whereas approximately HK\$30.9 million, equivalent to approximately 53.6% will be recovered on or before 31 March 2023. Based on our current operation scale and the contract sum of the Identified Projects, the amount of retention receivables to be recovered on or before 31 March 2023 of approximately HK\$30.9 million is not sufficient to maintain our current business operation and at the same time support us to continue tendering for additional and sizeable projects when suitable opportunities arise.

For illustrative purpose only, the following table sets forth our management's estimation of our cash flow position from our business operations from September 2022 to December 2022, without taking into account the [REDACTED] to be received by us from the [REDACTED]:

	Estimated cash inflow/(outflow) HK\$'000
Collection of trade receivables ^(Note)	157,631
Collection of retention receivables	11,146
Settlement of trade payables ^(Note)	(176,528)
Payment for staff costs and administrative expenses	(18,619)
Receipt of other income	5,526
Payment for Hong Kong profits tax	(6,003)
	<hr/>
Net cash inflow/(outflow)	<u>(26,847)</u>

Note: In making the estimation, we have taken into account our projects on hand and those tendered projects that we are positive that we shall be able to secure as at the Latest Practicable Date.

BUSINESS

Based on the above analysis, we cannot solely rely on working capital recycling for financing the operating costs associated with our projects on hand and the tendered projects of which we are positive to secure. In submitting the tender for the Identified Projects, we had taken into account the [REDACTED] to be received from the [REDACTED]. If there is any delay in the [REDACTED] schedule such that we may not be able to receive the estimated [REDACTED] from the [REDACTED] according to the expected timetable, we may resort to financing our operating costs with (a) our unutilised banking facilities and/or applying for additional banking facilities; and/or (b) advances from our Controlling Shareholders, which will inevitably increase our gearing ratio and/or increase our financial reliance on our Controlling Shareholders. Additionally, there is no assurance that we could continue to secure sufficient banking facilities or our Controlling Shareholders could continue to provide us with the advances necessary to support our business operations.

Based on our operation history during the Track Record Period and depending on the scale of the projects, we generally start incurring substantial portion of the up-front costs around three to four months after the commencement of our projects. The average timeframe between (i) the time when we first incurred the up-front costs; and (ii) the time when we first received payment from our customers is four months. Notwithstanding our customers might have started settling our trade receivables four months from the time when we first incurred project up-front costs, the amount of trade receivables received may not necessarily be sufficient to cover our operating costs until later stage of a project.

Business opportunities for wet trades works projects arise throughout the year. During the Track Record Period, our Group submitted on average nine tenders per month. There is no assurance that our Group will be equipped with sufficient financial resources when such business opportunities arise. We cannot guarantee that we will be able to generate positive cash flows from operating activities in the future. In particular, we cannot predict the amount and timing of billing to or receipts from our customers for our contract assets and trade receivables. The timing for the billing of our contract assets and settlement of our trade receivables by our customers depend on, among others, (i) the project schedule and work progress; (ii) the customer's internal arrangement which may be affected by market conditions; (iii) the scope of work of the project; and (iv) our negotiation with customers which may in turn affect the payment terms of our projects. In the event potential business opportunities of which our executive Directors consider as attractive and profitable arise at a time when our Group is under cashflow constraint, we will have to give up on the potential tender opportunities, resulting in material hindrance to our future business growth.

Further, if we are awarded with a number of sizeable projects which commence within a similar timeframe, our Group will have to incur a substantial amount of up-front costs, resulting in significant cash outflow during the relevant period. Adhering to prudent financial management and for the purpose of ensuring sufficient cash resources to finance the operating costs of these projects, we may (i) temporarily reduce our submission of new tenders; (ii) withdraw our tenders submitted before our customers formally issue letters of award to us; and/or (iii) refuse to revise our tender price during the tender selection process so as to lower the price competitiveness of our tenders, until we receive sufficient cash

BUSINESS

inflows from the existing projects to support the liquidity needs of our new projects. While we may free up certain financial resources by refraining from submitting new tenders, this may be detrimental to our competitiveness in the long run because failure to respond to tender invitations may be perceived negatively by our customers and they could be less inclined to invite us to tender for their projects again in the future.

Further, we recorded net cash used in operating activities of approximately HK\$49.1 million and HK\$18.8 million for FY2018/19 and FY2019/20, respectively. Having considered the net cash flows position for our operating activities during the Track Record Period, our executive Directors consider that it would not be financially prudent for us to carry out further business expansion by solely relying on our own internal resources. Further, it will be difficult for us to pursue more additional and sizeable projects if we solely rely on the net cash generated from our operating activities for financing our business strategies, since our plan will be subject to uncertainties in relation to the timing of generating sufficient net cash from our operation for our potential projects.

Based on the aforesaid, our business operations are capital intensive in nature. In light of the expected increase in our liquidity requirements along with our business expansion, our executive Directors consider that it is financially prudent for us to further strengthen our financial resources in order to ensure a sufficient level of working capital to support our business operations.

(III) Our operating cash flow was not sufficient to support us in pursuing additional and sizeable projects

Although we recorded a net cash generated from operating activities of HK\$58.9 million in FY2020/21, such net operating cash inflow was primarily because of certain ad-hoc factors, such as (i) we recorded a net cash inflow of approximately HK\$8.9 million from the loss-making project (i.e. Project #01) in FY2020/21 because our customer settled our fee during FY2020/21 for the additional rectification works that we performed during FY2019/20; and (ii) we recorded a net cash inflow of approximately HK\$19.6 million from our other income in FY2020/21 primarily consisted of government grants received by our Group. Excluding the impact of these ad-hoc factors, our net cash generated from operating activities for FY2020/21 would be approximately HK\$30.4 million. Part of our working capital was utilised in FY2020/21 as we had repaid approximately HK\$63.0 million of bank borrowings. Our cash flow position would therefore depend on the progress of our ongoing projects and the amounts certified and settled by the relevant customers. We generally experience net cash outflows at the preliminary stage of a project, as we incur up-front costs including subcontracting fees for work done by subcontractors, payment made to suppliers for materials and toolings and machinery rental costs.

It has been our plan to further increase our market share in the Hong Kong wet trades works industry and diversify our customer base. In particular, some of our major customers had commenced their business relationships with us during the Track Record Period. Based on our operating experience, the period required for us to collect our payment after our

BUSINESS

performance of works may vary among different customers mainly due to their own certification process and approval procedures for payments as well as the stages of the projects. Hence, there is inherent uncertainty involved in estimating the timing for receipt of payment from customers, resulting in possible cash flow mismatch and increased liquidity risk as shown in the fluctuation of our operating cash flow during the Track Record Period. In particular, when we undertake projects for new customers, it would be less feasible for us to accurately estimate the timing of payment from such customers. Therefore, our executive Directors believe that we should adhere to a prudent cash flow and liquidity management strategy in view of the mismatch in timing between making payment to our suppliers and receiving payment from our customers when undertaking contract works.

In the event that a number of sizeable projects commence within a similar period on top of our existing projects which are in progress, the associated up-front cost requirement may impose significant pressure on our Group's cash flow position. In such circumstances, we may have greater restrictions in pursuing additional and sizeable projects even if suitable tender opportunities arise. By the time we accumulate sufficient cash for us to finance the up-front costs and liquidity needs of such potential projects, the tender opportunities may no longer be available. In view of the aforementioned, our executive Directors consider that it is vital for us to ensure a sufficient level of working capital is readily available at all times to enable us to select and pursue suitable tender opportunities whenever they arise.

Expanding our workforce and enhancing our work environment

During the Track Record Period, we have focused on the role of project management and supervision in carrying out our projects. Our project management team, comprising site agent, quantity surveyor, site foreman and safety supervisor, is mainly responsible for overseeing the overall progress and execution of our projects. Our Group had continuously strengthened our project management capacity along with the increase in number of wet trades works projects undertaken by us during the Track Record Period. Our project supervision staff, consisting of our site agents and site foremen, increased from 21 as at 31 March 2019 to 28 as at 31 March 2022. Along with the expansion in our business scale and operation, our executive Directors consider that it is imperative to expand our workforce in order to enhance our project management capabilities. Taking into consideration all of our project management staff had been deployed to our projects on hand as at the Latest Practicable Date, our executive Directors consider that it is vital for us to further strengthen our project management capacity by recruiting additional project management staff.

We currently plan to hire an additional seven project supervision staff, consisting of site agents and site foremen, after the [REDACTED] to cope with the expected growth in our business. For further details of our recruitment plan, please refer to the paragraph headed "Future plans and use of [REDACTED] – Use of [REDACTED]" in this document. After we carry out the recruitment as mentioned above, we will provide on-the-job

BUSINESS

trainings for the newly recruited employees to equip them with the skills and knowledge relevant to their work tasks. We will also arrange external courses for these new staff in relation to work safety and different trades of works held by third party organisations.

As part of our ongoing efforts to maintain the safety standard of our operations, our executive Directors consider that the recruitment of additional safety supervision staff could enhance our ability to supervise our employees and subcontractors in relation to work safety and ensure that our internal control measures on work safety are strictly implemented across our different work sites. During the Track Record Period and up to the Latest Practicable Date, we recorded 54 accidents involving our employees and/or employees of our subcontractors, including one fatal accident occurred in December 2019. Based on the safety reviews conducted by the Safety Consultant, we consider that these workplace accidents involving our employees and/or our subcontractors' employees were primarily attributable to the workers failing to pay attention to the site environment or the malpractice of the workers in failing to comply with the applicable safety policies, procedures and regulations of our Group. For further information, please refer to the paragraph headed "Occupation health and work safety" below in this section. While we believe that our existing occupational health and safety management measures are proper and adequate, we are committed to continuously improve our safety management measures. The recruitment of additional safety supervision staff by us could facilitate us in ensuring our safety measures are strictly followed by our own employees and/or our subcontractors' employees in order to minimise the occurrence of accidents. Further, in light of the expected growth in the number and scale of projects undertaken by us, it is vital for us to maintain sufficient number of safety supervision staff such that we could closely monitor and supervise the safety levels of our various work sites. As at the Latest Practicable Date, we had a total of six safety supervision staff to supervise and oversee the implementation of site safety measures and monitor our occupational health and safety compliance. After the [REDACTED], we intend to hire an additional of three safety supervision staff.

As at the Latest Practicable Date, our existing office premises were fully occupied given that no vacant seats are available for any additional staff. We currently plan to expand our manpower under our business expansion plan by recruiting an additional of 14 staff in total, including three site agents, two quantity surveyors, three safety supervision staff, four site foremen and two finance and administration staff. Out of the 14 additional staff to be recruited by us, two of them are finance and administration staff who will be stationed in our office on a full-time basis. In respect of the 12 additional project management staff (comprising site agents, quantity surveyors, safety supervision staff and site foremen), while they will be deployed from time to time to carry out site visits, they will also have to handle various tasks at our office premises, including preparation of tender document, formulation of detailed budgets, work schedules and work allocation plan, procurement of materials, preparation of progress report and attending internal and external meetings. As such, we have to ensure available office space for these 14 additional staff. Given that our existing office premises will not be able to accommodate all the additional staff to be hired, our executive Directors consider that we have a genuine need to lease an additional office with gross floor area of approximately 2,000 sq. ft. in proximity to the

BUSINESS

location of our existing office premises for providing sufficient workspace for our staff. It is expected that the rent for the additional office would be approximately HK\$50,000 per month after considering the rent for similar property within the proximity of our headquarters.

Acquiring additional machinery and motor vehicles

We generally deploy our self-owned machinery for the use of our subcontractors in carrying out their works in our projects. Taking into consideration the needs for machinery and equipment arising from our business strategy in undertaking additional and more sizeable wet trades works projects, our executive Directors consider that it is crucial for our Group to further enhance our fleet of machinery in order to facilitate our subcontractors in carrying out their works in our projects. We currently intend to apply part of our [REDACTED] from the [REDACTED] to acquire two forklifts, 11 plaster spray machines and approximately 400 sets of parts and components for plaster spray machines. Our executive Directors believe that a larger fleet of machinery will allow us to (i) improve our overall work efficiency and technical capability; and (ii) enhance our flexibility to deploy our resources more efficiently.

The availability of our machinery is conducive to our ability to ensure the timely delivery of works to our customers. According to the Industry Report, it is increasingly common to replace manual operation with the use of plaster spray machines for wet trades projects involving plastering works so as to increase the productivity of workers and further enhance the quality of craftsmanship. The use of plaster spray machines enables workers to complete a larger coverage of plastering works as compared to relying on traditional manual works over the same duration of time. We were committed to continually expand our fleet of machinery to accommodate our growing machinery needs arising from the significant growth in our business operations during the Track Record Period. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we purchased machinery in the amount of approximately HK\$0.4 million, HK\$0.3 million, HK\$0.7 million and HK\$0.8 million at costs, respectively. In particular, the number of plaster spray machines owned by us increased from 24 as at 31 March 2019 to 39 as at 31 March 2022. Our executive Directors believe that it is vital for us to continually invest in additional machinery in order to maximise the productivity of our subcontractors and workers and keep enhancing the quality of craftsmanship.

As we plan to increase the usage of plaster spray machines in our operations, our executive Directors believe that it is crucial for us to keep in place sufficient parts and components, which are consumables in nature, to support the functioning of the plaster spray machines. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we consumed approximately 550 sets, 650 sets, 750 sets and 1,050 sets of parts and components in support of our plaster spray machines, for which we incurred approximately HK\$0.4 million, HK\$0.4 million, HK\$0.4 million and HK\$0.8 million, respectively. As we intend to increase the usage of plaster spray machines for wet trades projects involving plastering

BUSINESS

works, we expect that we would have genuine need to enlarge our procurement of parts and components in light of the anticipated growth in their consumption in the future.

Besides, as the age of our machinery increases, they generally depreciate in value, operational efficiency and cost-effectiveness. As at 31 March 2022, we owned 39 sets of plaster spray machines and three sets of forklifts. Based on the straight-line depreciation method adopting an expected useful life of three years for our machinery under our accounting policy, as at 31 March 2022, the majority (i.e. 29 sets) of our plaster spray machines and one set of our forklifts were fully depreciated or will be fully depreciated within one year. By replacing the aged machinery, our Group will benefit from the higher operational efficiency and lower maintenance cost of new machinery. It is crucial for our Group to constantly review the conditions of our machinery and determine if any machinery replacement or upgrade is required for maintaining our competitiveness.

As at the Latest Practicable Date, our Group owned three motor vehicles for the transportation of our project management staff. During the Track Record Period, our project management staff had from time to time visited project sites to monitor the progress and oversee the quality and standard of the works undertaken. In light of our planned expansion in manpower as well as the projected increase in number of site visits required for our additional projects, our executive Directors currently intend to apply part of our [REDACTED] from the [REDACTED] to acquire two additional motor vehicles to increase our flexibility and efficiency in the deployment and transportation of our project management staff to different work sites.

Acquiring equipment and tools to further strengthen our occupational safety

We are committed to promoting safety practice during the implementation of our projects. We require our employees and our subcontractors' employees to strictly follow our safety rules as set out in the safety plan. We also provide suitable personal protective equipment such as full-body harness, safety helmet and safety boots to our employees and our subcontractors' employees based on the type of works undertaken by them.

The Construction Sites (Safety) Regulations prescribe that on a construction site where workers are at the risk of falling from a height of two meters or more, the contractor shall take adequate steps to ensure the safety of these workers, including the provision of suitable and adequate quantities of planks and toe-boards to be served as working platforms. During the Track Record Period, some of our major customers, such as Customer Group A and Customer Group D, had taken up the responsibility for providing adequate quantities of planks and toe-boards. Meanwhile, we were required under the contracts with some of our major customers, including Sanfield and Customer Group G, to arrange adequate quantities of planks and toe-boards on our own account for the use in their projects. We consider that our procurement of planks and toe-boards could place us in a better position in fulfilling the requirements under the contracts with our customers.

BUSINESS

Besides, as part of our ongoing efforts in safeguarding workers' safety, our executive Directors believe that our plan to strengthen the safety measures through the arrangement of providing suitable and adequate quantities of planks and toe-boards to be served as working platforms could provide better assurance to our staff as well as our subcontractors in performing works at height, which, in turn, would reflect positively on our reputation on safety practice and attract quality subcontractors and workers to work with us in the future. In view of the abovementioned and our continuous emphasis on workers' safety, we currently intend to apply part of our [REDACTED] from the [REDACTED] to acquire 20,000 sets of planks and toe-boards.

Enhancing our information technology capability and project implementation efficiency

We intend to enhance our information technology capability and increase our efficiency in project implementation. In this regard, we plan to apply part of our [REDACTED] from the [REDACTED] for procuring an enterprise resources planning ("ERP") system which streamlines the process of materials purchasing and subcontractor payroll management. Our executive Directors believe that the new ERP system could perform the following functions:

- (i) facilitates the ordering process by allowing our project management team to send purchase requests online via web application which is accessible by mobile device;
- (ii) facilitates the approval process of purchase orders by allowing web-based payment approval by our site agent and/or executive Directors;
- (iii) facilitates the processing of purchase orders by generating purchase orders automatically from purchase requests;
- (iv) reduces errors and duplication of purchase orders by storing all purchase requests in a central database;
- (v) facilitates the management of purchase orders by matching ordered materials to the relevant project and allowing our staff to retrieve and trace any purchase orders placed on a real time basis; and
- (vi) enhances documentation and automates manual procedures such as record of works performed by subcontractors and online storage of progress payment applications submitted by subcontractors.

Implementation of business strategies

For further details on the implementation of the above-mentioned business strategies, please refer to the section headed "Future plans and use of [REDACTED]" in this document.

BUSINESS

DESCRIPTION OF OUR SERVICES

We provide wet trades works services as a subcontractor in Hong Kong. We have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. Typically, our major responsibilities in a project include (i) arranging site preparatory and preliminary works; (ii) engaging and supervising our subcontractors; (iii) monitoring the implementation of site works; (iv) conducting site safety supervision and quality control; and (v) developing detailed work schedule and work allocation plan. The wet trades works undertaken by us typically involve various trades of works, details of which are set out as follows:

- Plastering works which generally refer to applying plaster evenly on the surfaces of floors, walls and ceilings manually or with the use of our plaster spray machine.
- Tile laying works which generally refer to cutting and laying tiles on the surface of floors and walls.
- Brick laying works which generally refer to laying brick blocks in uniform layers.
- Floor screeding works which generally refer to applying a well-blended mixture of cement with graded aggregates and water to a floor base.
- Marble works which generally refer to cutting and laying marble tiles on the surfaces of floors, window sills and walls.

The following images illustrate the processes involved in our various types of wet trades works:



Plastering works



Tile laying works

BUSINESS



Brick laying works



Floor screeding works



Marble works

Relationship between our customers and our subcontractors

Our executive Directors consider that as a wet trades works subcontractor, we play an indispensable role of performing various types of wet trades works including plastering, tile laying, brick laying, floor screeding and marble works. Our executive Directors believe that main contractors tend to award contracts to us instead of directly engaging our subcontractors to perform the wet trades works due to the following reasons:

- We are able to assume a project management and supervision role for our customers to ensure smooth and timely execution of wet trades works with strict quality control. During the Track Record Period, we have focused on the role of project management and supervision in carrying out our projects, and we have engaged various subcontractors to perform substantial part of the site works under our supervision. We focus on (i) quality inspection and project supervision throughout project implementation in accordance with our quality management system and the specifications required by the main contractors; and (ii) the overall planning and management of work schedules in relation to the site workers, materials, machinery

BUSINESS

and other resources required at the works sites to ensure smooth and timely completion of the works required. We assist our customers and evaluate subcontractors taking into account their quality of services, qualifications, skills and technique, delivery time and reputation. Our site agent, who headed the project management team, will oversee the progress and quality of services rendered and liaise and communicate with our customers regularly. Our project management team would also prepare monthly progress reports, if required by our customer, to report on the project status and any issue identified throughout the project to keep our customer updated;

- We generally offer longer credit terms to our customers than those offered by our subcontractors. During the Track Record Period, our suppliers generally grant us a credit term of seven to 30 days while the credit term granted by us to our customers is generally 14 to 60 days. Besides, for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our trade receivables and contract assets turnover days were approximately 73.6 days, 96.3 days, 127.7 days and 124.2 days, while our trade payables and accruals for subcontractors' labour costs turnover days were approximately 27.5 days, 28.0 days, 32.0 days and 34.2 days, respectively. We are able to offer more favourable payment terms to our customers while our subcontractors may not have the financial resources to provide similar payment terms;
- Wet trades subcontractors normally experience net cash outflows as project up-front costs at the preliminary stage of a project. According to the Industry Report, the amount of up-front costs is generally within the range of 10% to 25% of the contract sum and may vary depending on the size and the duration of the project. Based on our operation history during the Track Record Period, the average timeframe between (i) the time when we first incurred the up-front costs; and (ii) the time when we first generate positive monthly cash flow in respect of the project is on average seven months. In view of the operating scale of our subcontractors, they may not have the capability as we do to maintain a sufficient level of working capital to cover the up-front cost requirements of large-scale projects.
- We understand our customers' needs and have a proven track record as a reliable wet trades subcontractors. Our management team has extensive industry knowledge and project experience in the wet trades works industry in Hong Kong. Mr. KS Chan, the chairman of our Board, chief executive officer of our Group, executive Director and one of our founders, has over 30 years of experience in the wet trades works industry. Mr. WP Chan, an executive Director and one of our founders, has over 20 years of experience in the wet trades works industry. Our Group has a team of experienced project management staff whose members possess in-depth knowledge of the industry. With an operating history of over 15 years, we have developed extensive knowledge, experience and understanding of our customers' needs concerning project management which may not be readily replicated by our subcontractors; and

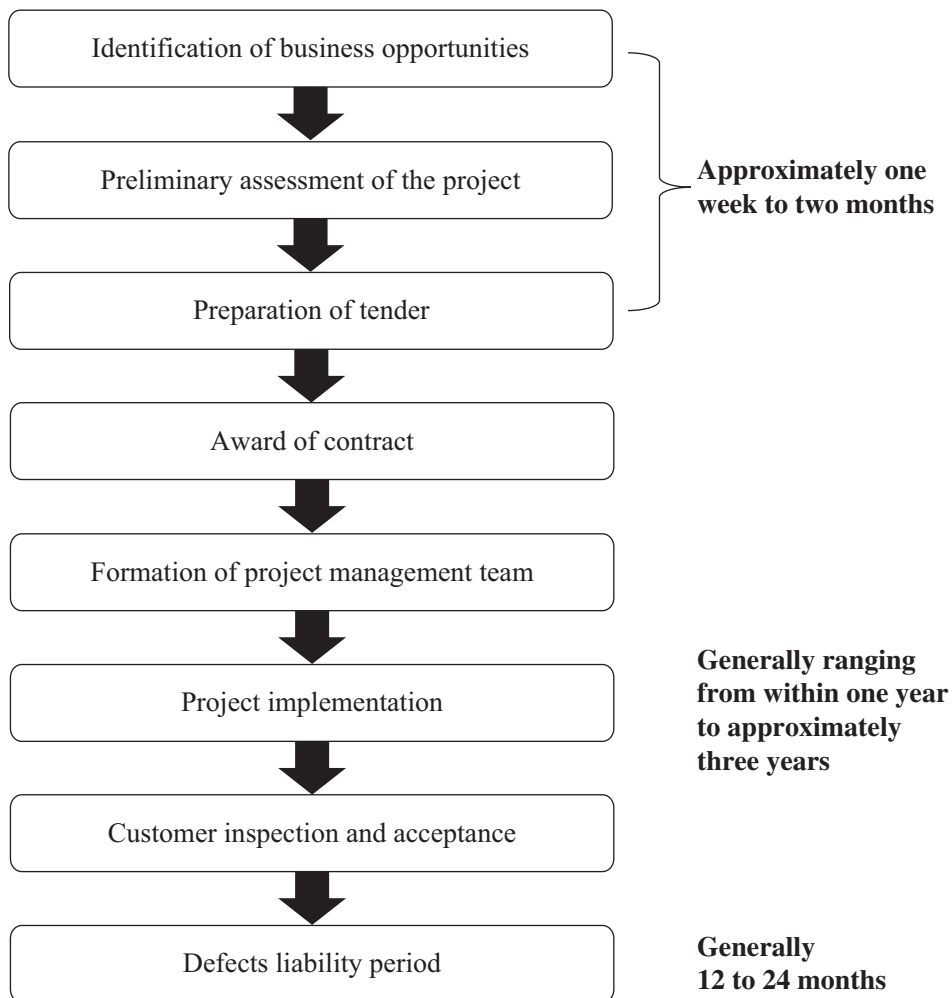
BUSINESS

- We are a registered specialist trade contractor under the Registered Specialist Trade Contractors Scheme. According to the Construction Industry Council, there were only 32 registered specialist trade contractors in the designated trade category of plastering (Group 2) under the Registered Specialist Trade Contractors Scheme as at 7 May 2022. Our executive Directors believe that our registration give confidence to our customer to entrust us to supervise our subcontractors to deliver quality service and meet their technical specifications.

BUSINESS OPERATIONS

Operation flow

Set out below is a flowchart summarising the principal steps of our business operations:



Note: The timeframe is calculated on an approximate basis and may vary from project to project depending on the complexity of the project, the requirements of our customers and/or our agreement with our customers on the timeframe for the principal steps.

BUSINESS

Identification of business opportunities

We identify potential projects mainly through invitation for tender from customers. Our Group received from time to time invitations to submit tender from construction contractors in Hong Kong. Please refer to the paragraph headed "Sales and marketing" below in this section for further details.

Preliminary assessment of the project

The tender documents and project details provided by our customers generally contain project description, scope of services required, expected commencement date, contract period, payment term and timeframe for submitting the tender.

In general, we would review and evaluate the tender documents and/or project details available to us to assess the scope of services, our capability, the expected complexity, our available financial and human resources and feasibility of the project to determine whether we should proceed with the preparation of tender.

Preparation of tender

Our quantity surveyors and executive Directors are primarily responsible for the preparation of tender submission. We may conduct site visit to the place at which the project is to be undertaken so as to have a better assessment of the complexity of the works involved.

Our tender submission generally includes priced bill of quantities or schedule of rates. The tender submission will be approved and endorsed by our executive Directors before submission to our customers.

We estimate the costs to be incurred in the project based on our past experience and the recent price trends for the subcontracting services and the types of materials and toolings required in the project. We may also obtain non-binding quotations from our subcontractors and/or materials and toolings suppliers in making our cost estimation. For further information on our pricing strategy, please refer to the paragraph headed "Pricing strategy" below in this section.

Our customers may arrange interviews with us after receiving our tender submission in order to have a better understanding of our personnel, expertise and experience. We may be required to answer queries in relation to our tender submission. Our customers may also negotiate on the options of our scope of service or propose amendment to our specifications.

Award of contract

Our customers generally confirm our engagement by issuing a letter of award or entering into a formal contract with us. During the Track Record Period, our contracts with customers are generally on re-measurement basis. Depending on our negotiations with customers, some of our

BUSINESS

customers may also engage us based on a lump sum price or a combination of lump sum price items and re-measurement items. In respect of re-measurement items, the contract will specify an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to our customer’s instructions or orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual work done. In respect of lump sum price items, we are generally required to carry out the specified works required by our customers of fixed quantity at an agreed lump sum price.

In addition, the contracts generally set forth the payment terms, project duration and other standard terms of services. For further details, please refer to the paragraph headed “Our customers – Principal terms of engagement” below in this section.

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded and the success rate during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	From 1 April 2022 to the Latest Practicable Date
Number of projects for which we have submitted tenders	86	88	135	111	22
Number of projects awarded ^(Note)	12	19	17	20	1
Success rate (%) ^(Note)	14.0	21.6	12.6	18.0	4.5

Note: In the above table, success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year or subsequently) in respect of the tenders submitted during that financial year/period.

During the Track Record Period, our Group had from time to time received invitations for tenders when our available resources were occupied by other projects on hand. Nonetheless, on occasion, in order to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future, it was our strategy to respond to our customers’ invitations by submitting tenders instead of turning them down. In such circumstances, our Directors would take a more prudent approach in costs estimation by factoring a higher profit margin even though it may cause our tender price to become less competitive than those submitted by our competitors. Due to such strategy and subject to the tender strategy of our competitors from time to time, we may experience fluctuations in our overall tender success rates from period to period.

BUSINESS

In view of our financial performance during the Track Record Period and our projects on hand as at the Latest Practicable Date, our Directors consider that the overall success rate of our tenders during the Track Record Period had been satisfactory.

Formation of project management team

We usually form a project management team which consists of site agent, quantity surveyor, site foreman and safety supervisor. Our project management team is generally responsible for (i) formulation of detailed plans and schedule; (ii) engaging, supervising and collaborating with our subcontractors; (iii) supervision of work progress, budget and quality of services rendered; (iv) preparation of progress report; and (v) participation in project meetings and communication with our customers on a continual basis; and (vi) ensuring the works performed fulfil our customers' requirements, and are completed on schedule, within budget and in compliance with all applicable statutory requirements. In general, we determine the manpower allocation to a project management based on the timeline, scales and complexity of the projects as well as the existing workload of our staff.

Set out below are the major responsibilities of each key member in a project management team:

- our site agent is responsible for supervising our overall workforce on multiple sites, monitoring work efficiency and performance of our subcontractors, communicating with our customers, subcontractors and other members of the project management team on the project status, allocation of resources in a project, and reviewing the progress reports, safety reports and site records;
- our quantity surveyor is responsible for performing cost estimation, determining, procuring and monitoring the quantity of materials and toolings required in the project, managing the project implementation costs and handling the payment applications to our customers;
- our site foreman is responsible for assisting our site agent to supervise and monitor work progress on site, supervising workmanship and quality and preparing site records setting out the works performed by our workers and subcontractors. In general, each site foreman is assigned and stationed at a particular project; and
- our safety supervisor is responsible for supervising and overseeing the implementation of site safety measures and monitoring day-to-day occupational health and safety compliance.

BUSINESS

Project implementation

We may experience net cash outflows as project up-front costs at the preliminary stage of a project. The up-front costs of our projects generally include project startup costs at the initial stage of a project comprising subcontracting fees for work done by subcontractors, payment made to suppliers for materials and toolings and machinery rental costs.

During the Track Record Period, we have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. Our project management team holds regular meetings with our subcontractors and conducts regular inspection to ensure that we strictly adhere to the project schedule and specifications.

Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project. After the review and endorsement by our site agents, the monthly progress reports will then be submitted to our customers for record.

We perform in-house quality inspection and project supervision throughout project implementation in accordance with our in-house quality management systems. For further information regarding our quality management systems, please refer to the paragraph headed "Quality control" below in this section.

We generally receive progress payments on a monthly basis from our customers based on our works done throughout project implementation. For further details on the payment terms, please refer to the paragraph headed "Our customers – Principal terms of engagement" in this section.

Customer inspection and acceptance

Upon completion of our works, our customers will conduct inspection and examination on our works done to ensure they comply with their quality standards, requirements and specifications. Upon passing the inspection, we will generally receive a completion certificate from our customer.

Defects liability period

Our contracts generally include a defects liability period of 12 to 24 months, following the completion of the relevant site works. During the defects liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

BUSINESS

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

Revenue by project sectors and the types of developments involved

We were mainly engaged in private sector projects in Hong Kong. To a lesser extent, we were also engaged in public sector projects in Hong Kong. Public sector projects refer to projects of which the project owners are Government departments and statutory bodies, while private sector projects refer to projects that are not public sector projects.

Our private sector projects mainly involved private residential developments and commercial developments. The project owners of our private sector projects were generally property developers, and our customers were generally main contractors engaged under such projects. Our public sector projects mainly involved public residential developments as well as infrastructure and public facilities developments. The customers of our public sector projects were generally main contractors engaged by Government departments and statutory bodies.

Set forth below are descriptions of the developments for which we performed wet trades works during the Track Record Period:

Residential: mainly included residential developments initiated by some of the leading private property developers in Hong Kong. To a lesser extent, we were also involved in public housing development initiated by the Housing Authority. The duration of these projects may range from within one year to approximately three years.

Commercial: mainly included commercial developments such as hotel and office building. The duration of these projects may range from within one year to approximately two years.

Infrastructure and public facilities: mainly included infrastructure and public facilities developments such as hospital and university buildings and facilities. The duration of these projects may range from within one year to approximately three years.

BUSINESS

During the Track Record Period, the majority of our revenue was derived from wet trades works for residential developments. The following table sets forth a breakdown of our revenue, gross profit and gross profit margin during the Track Record Period by reference to project sectors and the types of development involved:

	No. of projects	FY2018/19			Gross profit margin %	No. of projects	FY2019/20			Gross profit margin %
		Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000			Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000	
Private sector										
– Residential	23	355,719	79.4	18,735	5.3	25	425,654	82.9	36,707	8.6
– Commercial	5	3,141	0.7	221	7.0	5	933	0.2	65	7.0
Sub-total	28	358,860	80.1	18,956	5.3	30	426,587	83.1	36,772	8.6
Public sector										
– Residential	8	43,121	9.6	4,436	10.3	9	42,932	8.4	4,269	9.9
– Infrastructure and public facilities	4	45,939	10.3	8,119	17.7	8	43,635	8.5	4,960	11.4
Sub-total	12	89,060	19.9	12,555	14.1	17	86,567	16.9	9,229	10.7
Total	40	447,920	100.0	31,511	7.0	47	513,154	100.0	46,001	9.0
	No. of projects	FY2020/21			Gross profit margin %	No. of projects	FY2021/22			Gross profit margin %
		Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000			Revenue HK\$'000	% of total revenue %	Gross profit HK\$'000	
Private sector										
– Residential	31	253,783	57.6	23,771	9.4	28	285,993	62.7	32,918	11.5
– Commercial	6	102,329	23.3	17,536	17.1	11	90,066	19.7	10,914	12.1
Sub-total	37	356,112	80.9	41,307	11.6	39	376,059	82.4	43,832	11.7
Public sector										
– Residential	4	56,531	12.8	7,428	13.1	5	1,934	0.4	527	27.2
– Infrastructure and public facilities	10	27,726	6.3	5,187	18.7	13	78,439	17.2	13,329	17.0
Sub-total	14	84,257	19.1	12,615	15.0	18	80,373	17.6	13,856	17.2
Total	51	440,369	100.0	53,922	12.2	57	456,432	100.0	57,688	12.6

BUSINESS

Our Group’s revenue for private commercial projects increased from approximately HK\$0.9 million for FY2019/20 to approximately HK\$102.3 million for FY2020/21. The increase in revenue was mainly attributable to the substantial amount of wet trades works we had performed for Project #07, which contributed approximately HK\$72.8 million in revenue for FY2020/21 (FY2019/20: approximately HK\$49,000). For further details, please refer to the paragraph headed “Business – Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” in this document.

Our Group’s revenue decreased from approximately HK\$513.2 million for FY2019/20 to approximately HK\$440.4 million for FY2020/21. The decrease in revenue was mainly driven by (i) the decrease in the overall market opportunities in the wet trades works industry in Hong Kong which was mainly attributable to the temporary impact of the outbreak of COVID-19 in 2020; (ii) Project #03 and Project #06 contributed a relatively lower revenue for FY2020/21, as compared to FY2019/20; and (iii) some projects had been substantially completed in FY2019/20 while new projects with large contract sum were awarded or commenced works after the third quarter of 2020 onwards. For further details, please refer to the paragraph headed “Financial information – Period-to-period comparison of results of operations – FY2020/21 compared with FY2019/20” in this document.

Our Group’s revenue increased to approximately HK\$456.4 million for FY2021/22. The increase in revenue was mainly driven by the increase in the amount of works performed by our Group in some of our ongoing sizeable projects, including Project #16, a private residential project in Wong Chuk Hang, which contributed approximately HK\$61.4 million to our revenue during FY2021/22 (FY2020/21: approximately HK\$6.9 million).

Number of projects by range of revenue recognised

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, there were 40, 47, 51 and 57 projects which contributed a total of approximately HK\$447.9 million, HK\$513.2 million, HK\$440.4 million and HK\$456.4 million to our revenue, respectively. Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22
	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>	<i>No. of projects</i>
Revenue recognised				
HK\$50.0 million or above	2	3	2	1
HK\$10.0 million to below HK\$50.0 million	8	12	9	11
HK\$1.0 million to below HK\$10.0 million	17	5	20	15
Below HK\$1.0 million	13	27	20	30
	<hr/>	<hr/>	<hr/>	<hr/>
Total	40	47	51	57
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BUSINESS

Top projects undertaken during the Track Record Period

The following table sets out the details of our projects undertaken with accumulated revenue contribution to us of HK\$40.0 million or above during the Track Record Period:

Project No.	Rank	Customer (Note 1)	Contract sum (Note 2) HKS'000	Project sector	Type of developments	Location of the project	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year)				Gross profit margin during the Track Record Period		Estimated revenue to be recognised during FY2023 onwards (Note 4) HKS'000
								FY2018/19 HKS'000	FY2019/20 HKS'000	FY2020/21 HKS'000	FY2021/22 HKS'000	Record Period %	%	
#01	1	Sanfield	141,578	Private	Residential	Tai Po	Commencement: March 2018 Completion: April 2021	27.3	18,644	3.6	-	78	N/A	-
#07	2	Customer Group G	110,000	Private	Commercial	Hong Kong International Airport	Commencement: March 2020 Completion: March 2023	-	49	Negligible	16.5	33,742	14.3	3,413
#02	3	Customer Group A	100,778	Private	Residential	Long Ping	Commencement: April 2018 Completion: July 2021	14.3	30,859	6.0	5,317	610	1.3 (Note 5)	-
#04	4	Customer Group A	100,230	Private	Residential	Lohas Park	Commencement: June 2019 Completion: August 2022	-	31,804	6.2	58,109	9,827	16.8	490
#03	5	Customer Group A	92,250	Private	Residential	Tai Po	Commencement: July 2019 Completion: May 2022	-	8,024	15.8	11,162	39	Negligible	25
#05	6	Customer Group A	81,252	Private	Residential	Tuen Mun	Commencement: December 2018 Completion: August 2022	2,967	50,981	9.9	22,737	4,423	9.5	144
#06	7	Sanfield	74,500	Private	Residential	Tuen Mun	Commencement: June 2018 Completion: July 2020	18,050	52,556	10.2	3,894	-	0.6 (Note 6)	-
#14	8	Customer Group A	75,000	Private	Residential	Wong Chuk Hang	Commencement: February 2020 Completion: April 2023	-	16	Negligible	8.8	33,572	8.7	2,505
#08	9	Customer Group A	70,168	Public	Infrastructure and public facilities	Ma Liu Shui	Commencement: August 2018 Completion: July 2021	23,288	42,165	8.2	4,080	635	12.9	-
#09	10	Customer Group D	69,842	Public	Residential	Fanling	Commencement: July 2019 Completion: December 2021	-	20,186	3.9	48,445	1,211	15.5	-
#16	11	Customer Group A	75,000	Private	Residential	Wong Chuk Hang	Commencement: February 2021 Completion: March 2023	-	-	-	6,934	61,358	13.8	6,708

BUSINESS

Project No.	Rank	Customer (Note 1)	Contract sum (Note 2) sector HKS'000	Type of developments	Location of the project	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year)				Gross profit margin during the Track Record		Estimated revenue to be recognised during FY2022/23 HKS'000	Estimated revenue to be recognised during FY2023/24 onwards HKS'000
							FY2018/19 HKS'000	FY2019/20 HKS'000	FY2020/21 HKS'000	FY2021/22 HKS'000	%	%		
#10	12	Customer Group A	64,504	Residential	Lobas Park	Commencement: July 2018 Completion: December 2021	17,860	35,502	7,528	3,614	1.7	0.8	5.8	-
#11	13	Customer C	51,189	Residential	Tai Po	Commencement: June 2018 Completion: August 2022	29,915	19,219	468	1,522	0.1	0.3	6.8	65
#12	14	Customer F	48,705	Residential	Yuen Long	Commencement: November 2018 Completion: March 2021	6,669	35,717	6,399	-	1.5	-	7.7	-
#17	15	Customer C	51,000	Residential	Kai Tak	Commencement: December 2020 Completion: September 2022	-	-	4,043	44,344	0.9	9.7	14.8	2,613
#15	16	Customer Group H	48,600	Residential	Tuen Mun	Commencement: November 2020 Completion: August 2022	-	-	18,836	29,319	4.3	6.4	14.0	445
#18	17	Customer Group A	72,466	Infrastructure	Yan Ma Tei	Commencement: September 2020 Completion: March 2023	-	-	7,232	40,341	1.6	8.8	13.7	24,893
#19	18	Customer Group A	50,000	Residential	Cheung Sha Wan	Commencement: January 2021 Completion: September 2022	-	-	3,014	39,881	0.7	8.7	13.8	7,105
#13	19	Customer I	42,500	Residential	Tai Po	Commencement: September 2019 Completion: March 2022	-	13,006	28,652	842	2.5	6.5	3.8	-

Notes:

1. Please refer to the paragraph headed “Our customers – Top customers” in this section.
2. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.
3. The expected completion date for a particular project is provided based on our management’s best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.
4. The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.

BUSINESS

5. We recorded a relatively lower gross profit margin of approximately 1.3% for Project #02 during the Track Record Period which was mainly attributable to the additional subcontracting fees incurred by us for fulfilling the project schedule of Project #02 following a change of material for performing such project as requested by Customer Group A. Based on our negotiation with Customer Group A, we were required to complete a substantial part of tile laying works under Project #02, which had commenced in April 2018, during FY2018/19. In respect of Project #02, Customer Group A was responsible for the provision of tile-related materials to our Group for performing the tile laying works. After we had commenced performing the tile laying works for Project #02, there was a change of material for performing such works after our discussion with Customer Group A, resulting in a shorter period of time for us in completing the works. Our Group had therefore engaged additional subcontracting services in FY2018/19 for completing the tile laying works under Project #02 according to the original project schedule. Taking into consideration our established long-term business relationship with and the business opportunities arising from Customer Group A, we had endeavoured to accommodate its demand without charging them any additional fees for catering to such change. As a result, we recorded a relatively lower gross profit margin for Project #02. For further details, please refer to the paragraph headed "Financial information – Period-to-period comparison of results of operations – FY2019/20 compared with FY2018/19" in this document.
6. We recorded a relatively lower gross profit margin of approximately 0.6% for Project #06 during the Track Record Period which was mainly attributable to similar reasons for our loss making project (i.e. Project #01) that was also awarded to us by Sanfield. Project #06 was awarded and undertaken within a similar timeframe as Project #01. During the project implementation of Project #06, we realised that the workmanship specifications of Sanfield were different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, we had to perform additional rectification works, which were unexpected during the tender stage of Project #06.

BUSINESS

Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	From 1 April 2022 to the Latest Practicable Date
Opening number of projects ^(Note 1)	32	35	34	30	39
Add: Number of new projects awarded to us ^(Note 2)	13	18	18	19	2
Initial contract sum of the awarded project					
– HK\$50.0 million or above	6	3	5	5	–
– HK\$10.0 million to below HK\$50.0 million	4	2	7	7	–
– HK\$1.0 million to below HK\$10.0 million	1	2	5	3	1
– Below HK\$1.0 million	2	11 ^(Note 5)	1	4	1
Less: Number of projects completed ^(Note 3)	(10)	(19)	(22)	(10)	–
Ending number of projects ^(Note 4)	<u>35</u>	<u>34</u>	<u>30</u>	<u>39</u>	<u>41</u>

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.
3. Number of projects completed means the number of projects which are practically regarded as completed.
4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

BUSINESS

5. The number of awarded projects with initial contract sum below HK\$1.0 million was relatively higher for FY2019/20 because we were invited by Customer Group A and a number of new customers to tender for a total of 14 relatively smaller-scale projects with tender sum below HK\$1.0 million, among which we were awarded with five projects from Customer Group A and four projects from three new customers in FY2019/20. As our tendering strategy, we are open to undertaking projects of varying scale. Depending on our service capacity, we will pursue smaller-scale projects once we estimate that we could derive a reasonable amount of profit and attain our expected level of profitability for such projects. Accordingly, as we received tender invitations from Customer Group A and certain new customers in respect of the aforesaid relatively smaller-scale projects, our management had considered the above factors and decided that it was in our interest to pursue such projects.

The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	From 1 April 2022 to the Latest Practicable Date
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening value of backlog as at the beginning of the relevant year/period	283,768	476,091	373,857	548,142	758,063
Add: Total value of contract works awarded during the relevant year/ period ^(Note 1 and 2)	640,243	410,920	614,654	666,353	31,151
Less: Total revenue recognised during the relevant year/period	<u>(447,920)</u>	<u>(513,154)</u>	<u>(440,369)</u>	<u>(456,432)</u>	<u>(109,203)</u>
Ending value of backlog to be carried forward to next year/period ^(Note 3)	<u>476,091</u>	<u>373,857</u>	<u>548,142</u>	<u>758,063</u>	<u>680,011</u>

Notes:

- Total value of contract works awarded means (i) the original estimated contract sum of new projects awarded, or where applicable, the adjusted contract sum taking into account the amount of actual work orders on re-measurement basis; and (ii) the value of variation orders issued by our customers in the relevant year/period indicated.
- For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the average contract value of newly awarded projects was approximately HK\$45.1 million, HK\$19.4 million, HK\$33.5 million and HK\$33.8 million, respectively. The average contract value of newly awarded projects was relatively higher for FY2018/19 because we were awarded with six projects each with initial contract sum exceeding HK\$50.0 million in FY2018/19, including Project #02, #05, #06, #08, #09 and #10. The average contract value of newly

BUSINESS

awarded projects was relatively lower for FY2019/20 because the number of projects awarded to us with initial contract sum of HK\$50.0 million or above decreased from six in FY2018/19 to three in FY2019/20. The average contract value of newly awarded projects was relatively higher for FY2020/21 because we were awarded with five projects each with initial contract sum exceeding HK\$50.0 million in FY2020/21, including Project O01, #14, #16, #18 and #19. The average contract value of newly awarded projects was relatively higher for FY2021/22 because we were awarded with five projects each with initial contract sum exceeding HK\$50.0 million in FY2021/22, including Project O15, O18 to O20 and O22.

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the average size of projects was approximately HK\$43.2 million, HK\$39.8 million, HK\$34.0 million and HK\$41.0 million, respectively. The average size of projects for FY2020/21 was relatively lower because we undertook 18 projects with contract sum of HK\$10.0 million or less, while we only undertook 10, 11 and 14 projects with contract sum of HK\$10.0 million or less for FY2018/19, FY2019/20 and FY2021/22, respectively.

3. Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

Loss-making project during the Track Record Period

During the Track Record Period, we recorded one loss-making project which involved wet trades works undertaken by us for a residential development in Tai Po, Hong Kong (i.e. Project #01). Project #01, which was awarded in 2018, represented our first project obtained from Sanfield. Project #01 commenced in March 2018 and has been completed in April 2021. The adjusted contract sum of Project #01 was approximately HK\$141.6 million.

We determine the tender price of Project #01 based on a pricing strategy which is similar to that for our existing customers. For further details, please refer to the paragraph headed “Pricing strategy” below in this section. However, during the project implementation of Project #01, we realised that the workmanship specifications of Sanfield are different from our other existing major customers and it took us additional time to familiarise ourselves with the specifications of Sanfield. In order to satisfy the specifications of Sanfield, we have performed additional rectification works, which were unexpected during the tender stage of Project #01. As we had not foreseen that Project #01 would involve substantial amount of rectification works, the additional costs incurred by us for such rectification works had resulted in cost overrun for Project #01. In this regard, we recorded net loss of approximately HK\$6.9 million from Project #01 during the Track Record Period.

Our executive Directors consider that Project #01 does not have any material impact on our business operations because (i) our Group recorded net current assets of approximately HK\$38.4 million, HK\$63.0 million, HK\$109.4 million and HK\$140.3 million as at 31 March 2019, 2020, 2021 and 2022, respectively; (ii) our rectification works for Project #01 did not result in any material project delay and we were not subject to any penalty or liquidated damages claim by Sanfield; (iii) save as Project #01, we did not experience any loss-making projects as a result of inaccurate cost estimation during the Track Record Period and up to the Latest Practicable Date; (iv) we did not experience any cancellation of work orders from Sanfield for Project #01 or other project awarded by Sanfield; (v) for FY2020/21 and FY2021/22, our Group had received 15 and 13 tender invitations from Sanfield, respectively; and (vi) we have subsequently implemented enhanced internal control measures in order to prevent the recurrence of project cost overrun. For further information on our cost control measures, please refer to the paragraph headed “Pricing strategy” in this section.

BUSINESS

PROJECTS ON HAND

As at the Latest Practicable Date, our Group had 41 projects on hand (representing projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced). The following table sets out the details of our on-going projects as at the Latest Practicable Date:

Project No.	Location of the project	Customer	Project sector	Type of development	Contract sum (Note 1) HK\$'000	Date of commencement and completion of our works (Note 2)	Revenue recognised during the Track Record Period			Gross profit margin during the Track Record Period		Estimated revenue to be recognised during (Note 4)	
							FY2018/19 HK\$'000	FY2019/20 HK\$'000	FY2020/21 HK\$'000	FY2021/22 HK\$'000	Record Period %	FY2022/23 HK\$'000	FY2023/24 onwards HK\$'000
018	Lobas Park	Customer C	Private	Residential	111,047	Commencement: March 2022 Completion: June 2024	-	-	-	135	13.0	37,751	73,161
022	Wong Chuk Hang	Customer Group A	Private	Residential	104,973	Commencement: March 2022 Completion: December 2023	-	-	-	911	14.0	40,430	63,632
019	Shek Kip Mei	Customer Group G	Private	Residential	92,846	Commencement: March 2022 Completion: March 2024	-	-	-	43	15.0	30,341	62,462
001	Hong Kong International Airport	Customer Group G	Private	Commercial	105,953	Commencement: September 2021 Completion: July 2024	-	-	-	25,083	9.0	49,766	31,104
020	Kwai Chung	Customer Group D	Public	Infrastructure and public facilities	73,479	Commencement: March 2022 Completion: March 2024	-	-	-	53	10.0	27,904	45,522
015	Kai Tak	Customer Group G	Public	Infrastructure and public facilities	74,349	Commencement: October 2021 Completion: February 2023	-	-	-	23,306	25.0	50,843	-
017	Kowloon Tong	Customer C	Private	Residential	45,089	Commencement: Third quarter of 2022 Completion: Third quarter of 2023	-	-	-	-	N/A	25,287	19,802
005	West Kowloon	Customer C	Public	Infrastructure and public facilities	44,893	Commencement: March 2021 Completion: July 2023	-	-	21	3,986	14.0	33,658	7,228
016	Kai Tak	Customer Group D	Public	Infrastructure and public facilities	27,212	Commencement: March 2022 Completion: June 2024	-	-	-	844	14.0	6,025	20,343
013	Hong Kong International Airport	Customer C	Public	Infrastructure and public facilities	32,821	Commencement: September 2021 Completion: May 2023	-	-	-	6,866	10.0	25,576	379
#18	Yau Ma Tei	Customer Group A	Public	Infrastructure and public facilities	72,466	Commencement: September 2020 Completion: March 2023	-	-	7,232	40,341	13.7	24,893	-
014	Hong Kong International Airport	Customer C	Public	Infrastructure and public facilities	16,569	Commencement: Third quarter of 2022 Completion: Third quarter of 2023	-	-	-	-	N/A	11,046	5,523
021	Kai Tak	A construction contractor	Public	Infrastructure and public facilities	16,374	Commencement: March 2022 Completion: June 2022	-	-	-	33	15.0	15,059	1,282

BUSINESS

Project No.	Location of the project	Customer	Project sector	Type of development	Contract sum ^(Note 1) HK\$'000	Date of commencement and completion of our works ^(Note 2)	Revenue recognised during the Track Record Period				Gross profit margin during the Track Record Period		Estimated revenue to be recognised during ^(Note 4)	
							FY2018/19 HK\$'000	FY2019/20 HK\$'000	FY2020/21 HK\$'000	FY2021/22 HK\$'000	%	FY2021/22 HK\$'000	FY2022/23 HK\$'000	FY2023/24 onwards HK\$'000
012	Mongkok	A construction contractor	Private	Residential	18,880	Commencement: September 2021 Completion: March 2023	-	-	-	5,893	13.0	12,987	-	
#19	Cheung Sha Wan	Customer Group A	Private	Residential	50,000	Commencement: January 2021 Completion: September 2022	-	-	3,014	39,881	13.8	7,105	-	
#16	Wong Chuk Hang	Customer Group A	Private	Residential	75,000	Commencement: February 2021 Completion: March 2023	-	-	6,934	61,358	13.8	6,708	-	
#17	Kai Tak	Customer C	Private	Residential	51,000	Commencement: December 2020 Completion: September 2022	-	-	4,043	44,344	14.8	2,613	-	
#14	Wong Chuk Hang	Customer Group A	Private	Residential	75,000	Commencement: February 2020 Completion: April 2023	-	16	38,884	33,572	8.7	2,505	23	
010	Wong Chuk Hang	A construction contractor	Private	Residential	20,810	Commencement: August 2020 Completion: November 2022	-	-	5,590	14,294	14.3	926	-	
#15	Tuen Mun	Customer Group H	Private	Residential	48,600	Commencement: November 2020 Completion: August 2022	-	-	18,836	29,319	14.0	445	-	
#07	Hong Kong International Airport	Customer Group G	Private	Commercial	110,000	Commencement: March 2020 Completion: March 2023	-	49	72,796	33,742	14.3	3,413	-	
011	Mongkok	Customer C	Private	Residential	19,900	Commencement: February 2020 Completion: August 2022	-	821	4,714	14,193	8.0	172	-	
009	Tsuen Wan	A construction contractor	Private	Commercial	26,539	Commencement: March 2021 Completion: June 2022	-	-	2,869	23,534	17.7	136	-	
Other projects ^(Note 4)							41,243	220,525	130,443	40,540		39,056	4,108	
Total:							41,243	221,411	295,376	442,471		454,645	334,569	

Notes:

- The contract sum shown in the above table represents the adjusted contract sum, taken into account actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.
- The expected completion date for a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.
- The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.
- Other projects represent our remaining 18 on-going projects as at the Latest Practicable Date.

BUSINESS

OUR CUSTOMERS

Characteristics of our customers

During the Track Record Period, our customers mainly included construction contractors in Hong Kong. The number of customers with revenue contribution to our Group was 13, 14, 14 and 17 for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. Our Group had two, three and five new customers for FY2019/20, FY2020/21 and FY2021/22, respectively. During the Track Record Period, all of our customers were located in Hong Kong and our revenue was denominated in Hong Kong dollars.

Principal terms of engagement

We undertake wet trades works on a project-by-project basis. Our executive Directors consider such arrangement is in line with the wet trades industry practice in Hong Kong. Our customers generally confirm our engagement by issuing a letter of award or entering into a formal contract with us. The principal terms of our engagement with customers are summarised as follows:

Scope of works

The contracts normally set out the scope of services to be carried out by our Group and other project specifications or requirements. Our customers generally require us to complete our works within a specified period and in accordance with their specified work schedule.

Duration

The contract usually specifies the commencement date and duration of the project implementation, typically ranging from three months to three years, subject to extension granted by the customers where necessary.

Contract sum

During the Track Record Period, our contracts with customers are generally on re-measurement basis. Depending on our negotiations with customers, some of our customers may also engage us based on a lump sum price or a combination of lump sum price items and re-measurement items. In respect of re-measurement items, the contract will specify an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to our customer's instructions or orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual work done. In respect of lump sum price items, we are generally required to carry out the specified works required by our customers of fixed quantity at an agreed lump sum price.

BUSINESS

Payment terms

Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, our customer will examine and certify our works done by issuing a payment certificate to us. The credit term granted by us to our customers is generally 14 to 60 days from the issue of invoices. Certain customers, such as Customer C, adopt a "pay when paid" policy with us and they have the rights to pay us after collection of payments from their customer.

Insurance

The main contractors would normally take out contractors' all risk insurance, third party liability insurance and work injury compensation insurance covering their own liabilities as well as our liabilities.

Procurement of materials and tooling

Depending on the contract terms agreed with our customers, materials and toolings may be (i) procured by us at our cost; (ii) provided by our customers at their cost; or (iii) procured by our customers for our use and such costs will be subsequently deducted in the relevant payment certificates issued to us. We typically purchase materials and toolings from our internal list of approved suppliers. In the circumstances where our customers procure certain tooling such as personal protective equipment and provide to us for our use at our cost, we would regard such customer as our supplier of the relevant toolings, further details of which are discussed in the paragraph headed "Top customers who were also our suppliers" below in this section.

Defects liability period

Our contracts generally include a defects liability period of 12 to 24 months, following the completion of the relevant site works. During the defects liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our neglect or failure to comply with our contractual obligation.

Retention monies

Depending on the contract terms, our customers may hold up a certain percentage of each payment made to us as retention monies. Our customers may withhold up to 10% of each of our progress payment as retention monies and subject to a cap of 5% of the total contract sum. Depending on the contract terms, half of the retention monies are generally released upon completion of our works to the satisfaction of the main contractor or project owner. The remaining half are generally released upon expiry of the defects liability period of the relevant contracts.

BUSINESS

As at 31 March 2019, 2020, 2021 and 2022, our retention receivables amounted to approximately HK\$43.9 million, HK\$46.2 million, HK\$50.0 million and HK\$57.7 million, respectively. Please refer to the paragraph headed “Financial information – Discussion of selected statement of financial position items – Contract assets and contract liabilities” in this document for a further discussion and analysis regarding our retention receivables.

Variation orders

A variation order may vary the original scope of work. Our customers may request additional or alteration of works beyond the scope of the contract during project implementation. Our customers generally place variation orders with us on the occasions where: (i) they requested us to perform works on additional portions or areas that are not specified in the original scope of our contract. This may arise when our customers intend to engage us to carry out follow-up works on those parts of works originally assigned to their other subcontractors; or (ii) they made alteration to the layouts and drawings for the relevant sites, resulting in additional or alteration of works beyond the original scope of our contract. This may arise when our customers considered adjustments to be necessary based on the actual site conditions during the project implementation stage.

Where the works under the variation order are the same or similar to the works prescribed in the contract, the rate of the works under the variation order usually accord with that of the contract. If there are no equivalent or similar items under the contract for reference, we will further agree on the rates with our customers. A variation order is usually placed by way of a purchase order by our customer describing the detailed works to be performed under such variation order.

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin during the Track Record Period by reference to revenue derived from the original contract value and variation orders of our projects:

	FY2018/19			FY2019/20			FY2020/21			FY2021/22						
	No. of projects	Gross		No. of projects	Gross		No. of projects	Gross		No. of projects	Gross					
		Revenue	profit margin		Revenue	profit/loss		profit margin	Revenue		profit margin	Revenue	profit margin			
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%				
Original contract value	37	405,009	26,640	6.6 ^(Note)	45	439,609	46,447	10.6	47	362,459	44,159	12.2	44	383,601	48,345	12.6
Variation orders	25	42,911	4,871	11.4	26	73,545	(446) ^(Note)	N/A	34	77,910	9,763	12.5	33	72,831	9,343	12.8
Total		<u>447,920</u>	<u>31,511</u>	<u>7.0</u>		<u>513,154</u>	<u>46,001</u>	<u>9.0</u>		<u>440,369</u>	<u>53,922</u>	<u>12.2</u>		<u>456,432</u>	<u>57,688</u>	<u>12.6</u>

BUSINESS

Note: Our gross profit margin derived from original contract value for FY2018/19 was relatively low mainly due to the loss-making project (i.e. Project #01). For FY2018/19, we recognised a substantial amount of revenue of approximately HK\$116.4 million from works performed under the original contract value of Project #01, and our gross profit margin attributable to such works was approximately 1.0%. Excluding the impact of Project #01, our gross profit margin attributable to works performed under the original contract value of our projects for FY2018/19 would be approximately 9.0%.

We recorded a gross loss from variation orders for FY2019/20 mainly due to Project #01. For FY2019/20, we recognised revenue of approximately HK\$13.3 million from works performed under the variation orders of Project #01, and we recorded a gross loss of approximately HK\$5.8 million from such works. Excluding the impact of Project #01, our gross profit margin attributable to works performed under the variation orders for FY2019/20 would be approximately 9.0%.

For further details of Project #01, please refer to the paragraph headed "Loss-making project during the Track Record Period" below in this section.

Performance guarantee

We were generally not required to provide performance guarantee in favour of our customers. Meanwhile, in one of our projects undertaken during the Track Record Period, we were required by the customer to provide performance guarantee by placing a deposit directly to the customer in the amount equivalent to 20% of the original contract sum (i.e. HK\$0.4 million). Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customer would be entitled to the guaranteed compensation for any monetary loss up to the amount of the performance guarantee. The performance guarantee was fully discharged upon project completion.

Liquidated damages

Liquidated damages clause may be included in the contracts to protect our customers against late completion of work. We may be liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally calculated on the basis of a fixed sum per day. During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customers against us.

Termination

Our customers may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project. During the Track Record Period and up to the Latest Practicable Date, none of our contracts were terminated pursuant to the termination clause.

BUSINESS

Top customers

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the percentage of our total revenue attributable to our top customer amounted to approximately 35.4%, 56.3%, 37.9% and 42.9% respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 90.5%, 91.6%, 79.8% and 89.5%, respectively.

FY2018/19

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK\$'000	%
1	Customer Group A ^(Note 1)	Since 2007	30 days; by cheque	158,628 ^(Note 1)	35.4
2	Sanfield ^(Note 2)	Since 2018	17–30 days; by cheque	140,438	31.3
3	Customer C ^(Note 3)	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by bank transfer	45,649	10.2
4	Customer Group D ^(Note 4)	Since 2007	28 days; by cheque	40,587	9.1
5	Customer E ^(Note 5)	Since 2011	60 days; by cheque	20,038	4.5
			Top five customers combined	405,340	90.5
			All other customers	42,580	9.5
			Total revenue	447,920	100.0

BUSINESS

FY2019/20

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK\$'000	%
1	Customer Group A ^(Note 1)	Since 2007	30 days; by cheque	289,055	56.3
2	Sanfield ^(Note 2)	Since 2018	17–30 days; by cheque	71,199	13.9
3	Customer F ^(Note 6)	Since 2018	35 days; by cheque	58,470	11.4
4	Customer Group D ^(Note 4)	Since 2007	28 days; by cheque	26,514	5.2
5	Customer C ^(Note 3)	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by bank transfer	24,612	4.8
Top five customers combined				469,850	91.6
All other customers				43,304	8.4
Total revenue				<u>513,154</u>	<u>100.0</u>

FY2020/21

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK\$'000	%
1	Customer Group A ^(Note 1)	Since 2007	30 days; by cheque	166,892	37.9
2	Customer Group G ^(Note 7)	Since 2016	21–30 days; by cheque	72,796	16.5
3	Customer Group D ^(Note 4)	Since 2007	28 days; by cheque	50,064	11.4
4	Customer Group H ^(Note 8)	Since 2019	30 days; by cheque	32,927	7.5
5	Customer I ^(Note 9)	Since 2019	30 days; by cheque	28,746	6.5
Top five customers combined				351,425	79.8
All other customers				88,944	20.2
Total revenue				<u>440,369</u>	<u>100.0</u>

BUSINESS

FY2021/22

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK\$'000	%
1	Customer Group A ^(Note 1)	Since 2007	30 days; by cheque	195,718	42.9
2	Customer Group G ^(Note 7)	Since 2016	21–30 days; by cheque	84,588	18.5
3	Customer C ^(Note 3)	Since 2017	Within 14 days upon receipt of payments by our customer from its customer; by bank transfer	70,820	15.5
4	Customer Group H ^(Note 8)	Since 2019	30 days; by cheque	31,490	6.9
5	First Group ^(Note 10)	Since 2020	30 days; by cheque	25,954	5.7
		Top five customers combined		408,570	89.5
		All other customers		47,862	10.5
		Total revenue		456,432	100.0

Notes:

- Customer Group A includes subsidiaries of a company listed in Hong Kong (the “**Customer Group A Holdco**”) which is principally engaged in construction works in Hong Kong, Macau and the PRC. Based on the latest annual report of Customer Group A Holdco, its revenue amounted to over HK\$70 billion for the year ended 31 December 2021. According to the Industry Report, Customer Group A is one of the largest construction contractors in Hong Kong in terms of annual turnover in 2021 and has undertaken various types of construction developments for a number of private property developers in Hong Kong. Customer Group A comprises a joint venture in Hong Kong set up by Customer Group A and Customer Group D to engage in design and construction of a hospital in Kai Tak. According to public records, Customer Group A and Customer Group D holds 60% and 40% interest in the joint venture, respectively. The joint venture contributed revenue of approximately HK\$15.0 million, HK\$14,000, nil and nil to our Group in FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. The end customers of Customer Group A include leading property developers in Hong Kong, Government departments and statutory bodies (such as the Civil Engineering and Development Department and the Hospital Authority) and universities. Customer Group A became our major customer in 2007 when we were awarded with a wet trades works project for a private residential development in Tsuen Wan, with an initial contract sum of approximately HK\$11.6 million. During the Track Record Period, we procured wet trades works projects from Customer Group A through tender invitations.
- Sanfield is a construction contractor company in Hong Kong, being a subsidiary of Sun Hung Kai Properties Limited (“**Sun Hung Kai**”) which is listed on the Main Board of the Stock Exchange (stock code: 0016). Sun Hung Kai is principally engaged in property development in Hong Kong and the PRC. Sun Hung Kai is one of the top five leading private property developers in Hong Kong according to the Industry Report (in terms of number of property completion in Hong Kong in 2021). Based on the latest annual report of Sun Hung Kai, its revenue amounted to over HK\$80 billion for the year ended 30 June 2021. The end customer of Sanfield is a leading property developer in Hong Kong. Mr. KS Chan became acquainted with Sanfield in 2016 through an industry event organised by The Association of Plastering Sub-Contractors Limited of which Mr. KS Chan acts as the president. Our Group subsequently became an approved subcontractor of Sanfield and Sanfield became our

BUSINESS

major customer in 2018 when we were awarded with Project #01. For further details, please refer to the paragraph headed “Top projects undertaken during the Track Record Period” above in this section. During the Track Record Period, we procured wet trades works projects from Sanfield through tender invitations.

3. Customer C is a subsidiary of a Hong Kong company (the “**Customer C Holdco**”) which is principally engaged in construction works in Hong Kong, the PRC and Southeast Asia. According to public records, Customer C Holdco is a private company incorporated in 1958 in Hong Kong and is ultimately owned by a company listed on the London Stock Exchange and a company listed on the Singapore Stock Exchange in equal shares. Customer C Holdco has an annual turnover of over HK\$19 billion and employs over 7,000 staff. The end customers of Customer C include leading property developers in Hong Kong and Government departments and statutory bodies (such as the West Kowloon Cultural District Authority). Our Group became acquainted with Customer C through a building and construction trade fair held around ten years ago. Along with the expansion in our Group’s business scale and service capacity, our Group began to approach Customer C for potential business opportunities in view of Customer C’s market position in the Hong Kong construction industry. Customer C became our major customer in 2017 when we were awarded with a wet trades works project for a private residential development in Tsuen Wan with an initial contract sum of approximately HK\$35.6 million. During the Track Record Period, we procured wet trades works projects from Customer C through tender invitations.
4. Customer Group D consists of subsidiaries of a company listed in Hong Kong (the “**Customer Group D Holdco**”) which is principally engaged in construction and property business in Hong Kong, Macau and the PRC. Based on the latest annual report of Customer Group D Holdco, its revenue amounted to over HK\$5 billion for the year ended 31 December 2021. The end customers of Customer Group D include Government departments and statutory bodies (such as the Housing Authority). Customer Group D became our major customer in 2007 when we were awarded with a wet trades works project for a public residential development in Yau Tong, with an initial contract sum of approximately HK\$12.9 million. During the Track Record Period, we procured wet trades works projects from Customer Group D through tender invitations.
5. Customer E is a subsidiary of a company listed in Hong Kong (the “**Customer E Holdco**”) which is principally engaged in construction works in Hong Kong, Macau and the PRC. According to the latest annual report of Customer E Holdco, its principal business activities include engaging in construction works in Hong Kong, Macau and the PRC. Based on the latest annual report of Customer E Holdco, its revenue amounted to over HK\$6 billion for the year ended 31 December 2021. The end customers of Customer E include property developers in Hong Kong and Government departments and statutory bodies (such as the Hospital Authority). Our Group became acquainted with Customer E through the introduction by a senior management member of Customer Group A around 10 years ago. Customer E became our major customer in 2011 when we were awarded with a wet trades works project for a private residential development in Fanling, with an initial contract sum of approximately HK\$17.5 million. During the Track Record Period, we procured wet trades works projects from Customer E through tender invitations.
6. Customer F is a construction contractor company in Hong Kong, being a subsidiary of a company listed in Hong Kong (the “**Customer F Holdco**”) which is principally engaged in construction works in Hong Kong. Based on the latest annual report of Customer F Holdco, its revenue amounted to over HK\$10 billion for the year ended 31 December 2021. The end customers of Customer F include property developers in Hong Kong. Our Group became acquainted with Customer F through a building and construction trade fair held in 2017. Customer F became our major customer in 2018 when we were awarded with a wet trades works project for a private residential development in Sham Shui Po, with an initial contract sum of approximately HK\$44.4 million. During the Track Record Period, we procured wet trades works projects from Customer F through tender invitations.
7. Customer Group G consists of construction contractor companies in Hong Kong, being subsidiaries of a company listed in Hong Kong (the “**Customer Group G Holdco**”) which is principally engaged in property development in Hong Kong and the PRC. Based on the latest annual report of Customer Group G Holdco, its revenue amounted to over HK\$60 billion for the year ended 30 June 2021. The end customers of Customer Group G include leading property developers in Hong Kong and Government departments and statutory bodies (such as the Housing Authority). Mr. KS Chan became acquainted with Customer Group G in 2016 through his business network developed while acting as the president of The Association of Plastering Sub-Contractors Limited and was subsequently invited to participate in corporate events held by Customer Group G. Customer Group G became our major customer in 2020 when we were awarded with Project #07. For further details, please refer to the paragraph headed “Top projects undertaken during the Track Record Period” above in this section. During the Track Record Period, we procured wet trades works projects from Customer Group G through tender invitations.

BUSINESS

8. Customer Group H consists of subsidiaries of a holding company (“**Customer Group H Holdco**”). According to public records, Customer Group H Holdco’s principal business activities include providing engineering and property services in Hong Kong, PRC, Macau, Singapore and Malaysia and its revenue amounted to over HK\$12 billion for the year ended 31 March 2021. The end customers of Customer Group H include property developers in Hong Kong and Government departments and statutory bodies (such as the Housing Authority). Our Group became acquainted with Customer Group H through a building and construction trade fair held in 2016. Since then, our Group had from time to time received tender invitations from Customer Group H. Customer Group H became our major customer in 2019 when we were awarded with a wet trades works project for a public residential development in Kowloon Bay, with an initial contract sum of approximately HK\$22.2 million. During the Track Record Period, we procured wet trades works projects from Customer Group H through tender invitations.
9. Customer I is a subsidiary of a company listed in Hong Kong (the “**Customer I Holdco**”) which is principally engaged in building construction works. Based on the latest announcement of annual results of Customer I Holdco, its revenue amounted to over HK\$1 billion for the year ended 31 March 2022. The end customers of Customer I include leading property developers in Hong Kong. Mr. KS Chan became acquainted with Customer I in 2015 through his business network developed while acting as the president of The Association of Plastering Sub-Contractors Limited and was subsequently invited to participate in corporate events held by Customer I. Along with the expansion in our Group’s business scale and service capacity, our Group began to approach Customer I for potential business opportunities in view of Customer I’s market position in the Hong Kong construction industry. Customer I became our major customer in 2019 when we were awarded with Project #13. For further details, please refer to the paragraph headed “Top projects undertaken during the Track Record Period” above in this section. During the Track Record Period, we procured wet trades works projects from Customer I through tender invitations.
10. First Group is principally engaged in property development in Hong Kong. Based on the latest annual return of First Group available at the Companies Registry, its share capital is HK\$2 in aggregate. The end customer of First Group is a property developer specialising in industrial and commercial property development in Hong Kong. Our Group became acquainted with First Group in a corporate event held by First Group in 2017. Along with the expansion in our Group’s business scale and service capacity, our Group began to approach First Group for potential business opportunities. First Group became our major customer in 2020 when we were awarded with a wet trades works project for a private commercial development in Tsuen Wan, with an initial contract sum of approximately HK\$15.8 million. During the Track Record Period, we procured wet trades works projects from First Group through tender invitations.

Save for holding an insignificant amount of shares in the holding company of Customer E (“**Customer E Holdco**”), a company listed on the Stock Exchange, for passive investment purpose from time to time by Mr. KS Chan, Ms. Tsang and the spouse of Mr. WP Chan, none of our Directors, their close associates or any Shareholder who owned more than 5% of the number of the issued shares of our Company as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period. The number of shares held by Mr. KS Chan, Ms. Tsang and the spouse of Mr. WP Chan in Customer E Holdco since their respective initial investments up to the Latest Practicable Date represented nil to approximately 0.05%, approximately 0.03% to 0.05% and 0.005% of the total issued shares of Customer E Holdco, respectively. Mr. KS Chan, Ms. Tsang and the spouse of Mr. WP Chan have invested in the shares of Customer E Holdco because they were positive about the outlook of the construction industry in Hong Kong, Macau and the PRC and they were confident in the future development and growth potential of Customer E Holdco, hence they considered that investment in Customer E Holdco provided a good opportunity for financial returns.

BUSINESS

Our Directors confirmed that, to their best knowledge after making reasonable enquiries: (i) the investments in Customer E Holdco by Mr. KS Chan, Ms. Tsang and the spouse of Mr. WP Chan are not inter-conditional or inter-connected with the award of projects to our Group by Customer E; and (ii) save for the transactions conducted in the ordinary course of business and the insignificant investment in Customer E Holdco as set forth above, there is no past or present relationship (employment, family, trust, financing or otherwise) between each of our top five customers and our Company or our subsidiaries, their respective controlling shareholders or beneficial owners, directors or senior management, or any of their respective associates.

Customer concentration

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the percentage of our total revenue attributable to our top customer amounted to approximately 35.4%, 56.3%, 37.9% and 42.9%, respectively. The percentage of our total revenue attributable to our top five customers combined amounted to approximately 90.5%, 91.6%, 79.8% and 89.5%, respectively for the same periods. Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

- We have established business relationship with Customer Group A since 2007. During our long-term business relationship with Customer Group A, we have endeavored to accommodate their demand for our services to the extent our resources allow, resulting in them being our top customer. During the Track Record Period, we undertook a total of 30 projects from Customer Group A which contributed revenue of approximately HK\$158.6 million, HK\$289.1 million, HK\$166.9 million and HK\$195.7 million to us in FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our gross profit margin with Customer Group A was approximately 9.0%, 13.3% and 10.0% and 12.6%, which is generally within the range of our gross profit margin with other customers (excluding the loss-making project (i.e. Project #01)), being approximately 9.6%, 7.6%, 13.6% and 13.4%, respectively. For FY2018/19, FY2019/20 and FY2020/21, our tender success rate with Customer Group A was approximately 19.2%, 25.8% and 17.4%, which was generally higher than the tender success rate with other customers, being approximately 11.7%, 19.3% and 9.8%, respectively. We believe that Customer Group A regards us as their preferred business partner and the long-standing relationships with us is attributable to their confidence in our ability to consistently deliver quality service and meet their technical specifications over the years of business cooperation. Therefore, our executive Directors believe that the likelihood that the relationship between us and Customer Group A will materially adversely change or terminate is low;
- According to the Industry Report, Customer Group A is one of the largest construction contractors in Hong Kong in terms of annual turnover in 2021 and undertake various types of construction developments for a number of property developers in Hong Kong. Based on the latest annual report of the holding company of Customer Group A, its revenue amounted to over HK\$70 billion for the year ended 31 December 2021. The projects that we undertook for Customer Group A during the Track Record Period

BUSINESS

were originated from at least ten property developers, four Government departments and statutory bodies and two universities in Hong Kong. In light of the market share of Customer Group A in the Hong Kong construction industry, our executive Directors believe that Customer Group A will continue to have stable demands for quality wet trades works, and our proven track record with Customer Group A would enable us to capture the business opportunities available from Customer Group A. As at the Latest Practicable Date, our Group had four submitted tenders with Customer Group A, with an aggregate estimated tender amount of more than HK\$85 million, which were still undergoing tender selection process and pending tender result;

- According to the Industry Report, customer concentration is an industry norm in the wet trades works industry in Hong Kong. Customers generally prefer to engage wet trades works contractors with industry reputation, comprehensive services offering, technical expertise, proven track record and sound financial capability. There were only 32 registered specialist trade contractors in the designated trade category of plastering (Group 2) under the Registered Specialist Trade Contractors Scheme as at 7 May 2022. According to the Industry Report, customers are generally inclined to engage wet trades works contractors with larger operating scale for sizeable projects. In particular, a sizeable wet trades works project would normally have a contract sum of HK\$50 million or above. To ensure such large-scale wet trades works could be completed on time and within budget, the main contractors would prefer to engage the established market players in the wet trades works industry who possess the requisite expertise, experience and resources to handle such projects reliably. According to the Industry Report, the top five wet trades works subcontractors in Hong Kong had an estimated revenue ranging from approximately HK\$117.5 million to HK\$456.4 million in the year of 2021. As such, where a wet trades works contractor obtains any sizeable projects with contract sum of HK\$50 million or above, such projects would likely contribute a significant portion of its revenue in the forthcoming years and hence this may result in customer concentration for such wet trades works subcontractor in the relevant periods;
- We have made consistent effort in expanding and diversifying our customer base. During the Track Record Period, we have started conducting businesses with more than ten sizeable construction contractors in Hong Kong (including but not limited to Sanfield, Customer F, Customer Group H, Customer I and First Group) and obtained a number of large scale projects from some of them. For example, we obtained two sizeable private residential projects, namely Project #12 and #13, with adjusted contract sum of approximately HK\$48.8 million and HK\$42.5 million, from Customer F and Customer I, respectively. For further details of these major customers, please refer to the paragraph "Top customers" above in this section. Our executive Directors consider that our ability to expand our customer base demonstrates that our know-how and expertise in wet trades works are commonly applicable to the projects from different customers;

BUSINESS

- Our tendering strategy focuses on building up a balanced customer portfolio which consists of (i) customers which have established relationships with us; (ii) customers which commenced business relationships with us in recent years; and (iii) new potential customers from which we received tender invitations from time to time. In particular, our Group places emphasis on accommodating the service demand from our long-term customers, such as Customer Group A, to the extent our resources allow. Our executive Directors consider that our long-term track record with Customer Group A were accumulated from years of co-operations in various scale and types of projects, which could not be easily replicated by our competitors. As such, we are well-positioned to pursue sizeable projects from Customer Group A. Further, given Customer Group A's market position as one of the largest construction contractors in Hong Kong in 2021, we could secure a stable source of tender opportunities as long as we could maintain to be one of its key subcontractors. Meanwhile, leveraging our track record and industry experience, we have made consistent effort in expanding and diversifying our customer base in recent years. In particular, five of our top customers, including Sanfield, Customer F, Customer Group H, Customer I and First Group, had commenced business relationships with us during the Track Record Period. Going forward, while we would reserve sufficient service capacity to cater to long-term customers, such as Customer Group A, we will also strive to respond to tender invitations from different construction contractors. Our executive Directors believe this balanced approach will facilitate the business development of our Group, given that it could (i) mitigate our risk associated with customer concentration; (ii) build up our track record and industry reputation among a larger customer base; (iii) enable us to acquire better understanding of the project requirements and quality standards of different construction contractors; and (iv) gain more opportunities to participate in different landmark developments in Hong Kong, such as the two projects obtained by us in 2020 in relation to the commercial development at Hong Kong International Airport.
- Some of our major customers during the Track Record Period are reputable construction contractors which are subsidiaries of major property developer groups in Hong Kong. For example, each of the holding companies of Sanfield and Customer Group G is one of the top five leading private property developers in Hong Kong according to the Industry Report (in terms of number of property completion in Hong Kong in 2021). According to the Industry Report, property developers in Hong Kong are usually inclined to award their projects to their group members engaged in the provision of construction works, which in turn will further delegate their tasks to different subcontractors. Our executive Directors considered that our working relationship with these customers has enhanced our business exposure to construction developments initiated by their parent groups;

BUSINESS

- We experienced a strong demand for our wet trades works services from customers during the Track Record Period as evidenced by a large number of tender submission that we made upon customers' invitations. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we had submitted tenders for a total of 86, 88, 135 and 111 projects, respectively;
- Our executive Directors believe that it is mutually beneficial and complementary for both our major customers and us to maintain a close and stable business relationship with each other because our major customers could benefit from our proven track record as a quality subcontractor in the provision of wet trades works to ensure their projects are executed on time, within budget and in accordance with their quality standards. Our provision of quality wet trades works also enabled our major customers to fulfil their responsibilities under the contractual relationships with their customers. The extensive experience of our project management and supervision staff have also enabled us to assist our customers in project management and site supervision, and build reliable relationship and trust among our customers, their respective customers and us; and
- We have established a stable customer base including construction contractors which require wet trades works services. Our management would discuss with our major customers to understand their forthcoming project plans and endeavor to allocate resources, as far as allowed, and accommodate their demands for our services. Hence, we have been able to capture business opportunities from our major customers when they arise.

Top customers who were also our suppliers

When we undertake projects for our customers, there may be occasions where our customers supply certain toolings and services to us under the same projects and subsequently deduct such amounts in the relevant payment certificates issued to us. Such procurement from our customers mainly included purchase of toolings such as personal protective equipment, and arrangement of machinery rental and cleaning services.

According to the Industry Report, it is common in the wet trades works industry for the main contractors to provide the requisite toolings such as personal protective equipment to its subcontractors and assist them in site cleaning. The main contractors would subsequently deduct such amounts in the relevant payment certificates issued to the subcontractors. Based on the Industry Report, main contractors adopted the aforesaid arrangements mainly for the purpose of (i) better ensuring the personal protective equipment procured and used in the projects fulfil their specifications and standards; and (ii) centralising the onsite cleaning for different parts of the works under the construction developments.

BUSINESS

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we incurred approximately HK\$3.1 million, HK\$4.5 million, HK\$1.7 million and HK\$3.8 million, respectively, for the procurement of toolings and arrangement of machinery rental and site cleaning services from our customers. The average gross profit margin for those projects which involved the aforesaid procurement from customers was approximately 13.3%, 10.2%, 12.0% and 10.2% for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively.

The following table sets forth the details of our transactions with customer who supplied toolings and services to us with procurement amounts representing over 0.5% of our cost of services for any financial year during the Track Record Period:

	FY2018/19		FY2019/20		FY2020/21		FY2021/22	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Customer Group A								
Revenue derived and approximate % of our total revenue	158,628	35.4	289,055	56.3	166,892	37.9	195,718	42.9
Procurement amounts and approximate % of our cost of services	1,931	0.5	2,326	0.5	182	Negligible	1,346	0.3

PRICING STRATEGY

Our pricing is generally determined based on certain mark-up over our estimated costs. We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs would not exceed our estimation during the performance of our projects. Please refer to the paragraph headed "Risk factors – Any material inaccurate cost estimation or cost overruns may adversely affect our financial results" in this document for further details of the associated risks in this regard.

In order to minimise the risk of inaccurate estimate and cost overrun, the pricing of our services is overseen by our management team, whose background and experience are disclosed in the section headed "Directors and senior management" in this document, based on our pricing strategy described in the following paragraphs.

Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the price trend for the types of subcontracting services as well as materials and toolings required; (iii) the complexity and the location of the project; (iv) the estimated number and types of machinery required; (v) the completion time requested by customers; and (vi) the availability of our labour and financial resources.

BUSINESS

We prepare our tender price based on a certain percentage of mark-up over our estimated cost. The percentage of mark-up may vary substantially from project to project due to factors such as (i) the size, duration and sector of the project; (ii) years of business relationship with the customer; (iii) credit history and financial track record of the customer; (iv) the prospect of obtaining future contracts from the customer; (v) any possible positive effect of our Group's reputation in the wet trades industry; (vi) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components; and (vii) the prevailing market condition.

In order to prevent the recurrence of cost overrun in light of Project #01 as mentioned in the paragraph headed "Loss-making project during the Track Record Period" above in this section, we have adopted the following enhanced measures to minimise the potential risk of cost overruns:

- our project management team shall prepare a profit and cashflow forecast, inclusive of a cost budget, for each project prior to its commencement. The profit and cashflow forecast shall be submitted to our finance and administration department and executive Directors for approval. Our projects shall be implemented according to the respective cost budget;
- actual expenses incurred and cashflow status of each project is monitored by our project management team on an ongoing basis. Our project management team is responsible for documenting cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow statements for each project and submitting the cashflow statements to our finance and administration department on a monthly basis;
- our finance and administration department, led by our financial controller, is responsible for reviewing the cashflow statements and performing analysis on any difference between the actual and forecast cashflow for each project and submitting the cashflow statements to our Group's management for review;
- revisions to project cost budget, which requires approval from our executive Directors, may be made to control the cost target of projects. Any revisions to project cost budget shall (i) identify the causes of the increase in cost of the project; and (ii) set out the measures to be taken to control the cost of the project. Revisions to cost budget may be made due to rectification works, changes in work scope, material changes in economic conditions or occurrence of force majeure event;
- in respect of new customer, our project management team shall conduct thorough assessment on the workmanship specification of such customer in order to minimise the occurrence of unexpected rectification works from the customer;

BUSINESS

- in preparing project tender for new customers, our quantity surveyors and executive Directors shall consider if additional profit margin is to be factored in the tender price so as to cover any potential increase in cost to be incurred by us as a result of any unexpected rectification works requested by such customers;
- in the event that there is significant net cash outflow of a project which indicates delay in payment certification or loss-making project, our finance and administration staff will actively follow up with the relevant customer for payment or plan for financing;
- our finance and administration staff is responsible for performing review of subsequent settlement of trade receivables, trade payables and contract assets on a monthly basis;
- after our customers acknowledge our monthly payment applications, our finance and administration staff will closely communicate with the customers on the status of the certification process. Our executive Directors will ensure that any customers' feedbacks on our Group's payment applications are promptly addressed; and
- material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions, including active communications and conducting follow up calls with the customers.

SALES AND MARKETING

During the Track Record Period, we secured new business mainly through competitive tendering by receiving invitations for tender from customers. Our Directors consider that due to our proven track record and our relationship with our existing customers, we are able to leverage our existing customer base and our reputation in the wet trades industry in Hong Kong such that we do not rely heavily on marketing activities other than liaising with existing and potential customers from time to time for relationship building and management.

Seasonality

Our Directors believe that the wet trades industry in Hong Kong does not exhibit any significant seasonality as wet trades works projects take place throughout the year in Hong Kong based on the experience of our Directors.

BUSINESS

OUR SUPPLIERS

Characteristics of our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) subcontractors; (ii) suppliers of materials and toolings; and (iii) suppliers of other miscellaneous services such as machinery rental and repair and maintenance services. During the Track Record Period, our suppliers were located in Hong Kong and our purchases were denominated in Hong Kong dollars. Our suppliers generally grant us a credit term of seven to 30 days.

The following table sets forth a breakdown of our total purchase during the Track Record Period by type of goods and services provided:

	FY2018/19		FY2019/20		FY2020/21		FY2021/22	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontracting fees	372,257	94.8	412,340	92.8	333,557	91.5	332,920	89.2
Materials and toolings	15,221	3.9	25,032	5.6	26,756	7.3	32,876	8.8
Miscellaneous services ^(Note)	5,084	1.3	6,941	1.6	4,257	1.2	7,549	2.0
Total	392,562	100.0	444,313	100.0	364,570	100.0	373,345	100.0

Note: These miscellaneous services mainly included machinery rental, repair and maintenance and other miscellaneous services.

Please refer to the paragraph headed "Financial information – Period-to-period comparison of results of operations" in this document for a discussion of the fluctuation in our purchases from our suppliers during the Track Record Period as shown in the above table. During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required.

We may obtain quotations from our suppliers in making our cost estimation during the tender phase. We will contact the suppliers that we have obtained quotations from during the tender phase, and may further negotiate on the pricing and contract terms with them after we are awarded with the projects.

BUSINESS

Principal terms of engagement

Our subcontractors

We engage our subcontractors on a project-by-project basis. We have not committed to any minimum purchase amount with our subcontractors. The salient terms included in our subcontracting agreements are summarised as follows:

Scope of services

The subcontracting agreement generally sets out the scope of services to be provided by our subcontractors. We require our subcontractors to complete the subcontracted works according to our customers' specifications, drawings and requirements.

Subcontracting fees

The contracts with our subcontractors are on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates of each item set out in the bill of quantities or schedule of rate and the actual quantities of work done.

Defects liability period

Our subcontractors shall be responsible for rectifying works defects arising from works subcontracted to them following the completion of the relevant subcontracted works to the satisfaction of the main contractor or project owner.

Payment arrangements

Our subcontractors are required to submit progress payment application to us setting out the details of the completed work on a monthly basis. Depending on the terms of engagements with our customers and arrangements with subcontractors, we may directly settle the wages of the site workers deployed by our subcontractors and subsequently deduct such amounts in the relevant progress payment application issued to us by such subcontractors. According to the Industry Report, it is common for construction contractors to directly settle the wages of the employees of their subcontractors which will be subsequently deducted from the progress payment application issued by the subcontractors and the purpose of such arrangement is to offer better protection and ensure timely settlement of wages to the employees of the subcontractors.

BUSINESS

Arrangements for materials

Materials are (i) provided by our subcontractors at their cost; or (ii) procured by us at our cost; or (iii) procured by us for our subcontractors' use at their costs and the amount we incurred for the purchases will be deducted from our payment to our subcontractors.

Safety and prohibition of illegal workers

Our subcontractors are required to carry out the subcontracted works in accordance with the relevant laws and regulations and the safety policies of us and our customers. Our subcontractors are also prohibited from hiring illegal workers. In the event of any non-compliance, the relevant subcontractor shall indemnify our Group against any action, loss, damages arising from such non-compliance.

Suppliers of materials and toolings

We engage our suppliers of materials and toolings on a project-by-project basis. We have not committed to any minimum purchase amount with our suppliers of materials and toolings. Our purchase orders generally specify the unit price, volume, delivery date, product specification and types of materials and toolings we required. On occasion, our suppliers may require us to provide a deposit when we procure materials and toolings from them. The purchased materials and toolings are generally delivered directly to the project sites and the transportation costs for the materials and toolings supplied are generally borne by our suppliers.

The major types of materials sourced from our suppliers included Portland cement, hydraulic lime, concrete blocks, aggregates and sand, while the major types of toolings sourced from our suppliers included personal protective equipment, parts and components for plaster spray machines and wet trades works ancillary tools. We may arrange sample inspection on the materials and toolings upon their arrival. Any materials and toolings that fail to comply with the specifications or standards provided in the purchase order will be returned to the suppliers for replacement. Our suppliers of materials and toolings charge us based on the total quantity of our purchase.

Suppliers of miscellaneous services

We also procure services from suppliers of miscellaneous services such as machinery rental, repair and maintenance and other miscellaneous services. Our purchase orders generally specify the price, scope of services required and delivery date. On occasion, our rental service providers may require us to provide a deposit when leasing machinery. We have not committed to any minimum purchase amount with our suppliers of miscellaneous services.

BUSINESS

Top suppliers

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, the percentage of our total purchases from our top supplier amounted to approximately 4.6%, 12.7%, 8.6% and 6.6% respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 20.8%, 36.0%, 25.3% and 21.8% respectively. The following tables set out information of our top five suppliers for FY2018/19, FY2019/20, FY2020/21 and FY2021/22:

FY2018/19

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers HK\$'000	%
1	Chan Tai Chuen and Pak Chuen Construction Engineering Co., Limited <i>(Note 1)</i>	Mainly subcontracting of general wet trades works services	Since 2008	7 days; by cheque	18,352	4.6
2	Ling Sze Lung Desmond and Man Yee Construction Engineering Limited <i>(Note 2)</i>	Mainly subcontracting of general wet trades works services	Since 2017	7 days; by cheque	17,983	4.6
3	(i) Cheung Fung Metal Trading Co.; (ii) Cheung Fung Engineering (Hong Kong) Limited; (iii) Cheung Fung International Metal Trading Company Limited; and (iv) Cheung Po Construction Materials Company Limited (v) Cheung Fung Metal Trading Company Limited <i>(Note 3)</i>	Mainly supplies of materials and toolings for wet trades work and subcontracting of plastering services	Since 2015	7 days to 30 days; by cheque and bank transfer	17,685	4.5
4	Supplier D <i>(Note 4)</i>	Mainly subcontracting of general wet trades works services	Since 2018	7 days; by cheque	17,570	4.5
5	To Kwai Kuen and Ka Fat Decoration Company <i>(Note 5)</i>	Mainly subcontracting of brick laying services	Since 2017	7 days; by cheque	10,196	2.6
Top five suppliers combined					81,786	20.8
All other suppliers					310,776	79.2
Total purchases					<u>392,562</u>	<u>100.0</u>

BUSINESS

FY2019/20

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
					HK\$'000	%
1	Y K Engineering Company Limited ^(Note 6)	Mainly subcontracting of general wet trades works services	Since 2019	7 days; by cheque	56,495	12.7
2	Ling Sze Lung Desmond and Man Yee Construction Engineering Limited ^(Note 2)	Mainly subcontracting of general wet trades works services	Since 2017	7 days; by cheque	53,115	12.0
3	Chan Tai Chuen and Pak Chuen Construction Engineering Co., Limited ^(Note 1)	Mainly subcontracting of general wet trades works services	Since 2008	7 days; by cheque	21,880	4.9
4	Pattern Pro Construction Limited ^(Note 7)	Mainly subcontracting of general wet trades works services	Since 2019	7 days; by cheque	18,341	4.1
5	Supplier H ^(Note 8)	Mainly supplies of cement	Since 2016	30 days; by cheque	10,180	2.3
Top five suppliers combined					160,011	36.0
All other suppliers					284,302	64.0
Total purchases					<u>444,313</u>	<u>100.0</u>

BUSINESS

FY2021/22

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
					HK\$'000	%
1	Ling Sze Lung Desmond and Man Yee Construction Engineering Limited ^(Note 2)	Mainly subcontracting of general wet trades works services	Since 2017	7 days; by cheque	24,550	6.6
2	To Kwai Kuen and Ka Fat Decoration Company ^(Note 5)	Mainly subcontracting of brick laying services	Since 2017	7 days; by cheque	22,015	5.9
3	Supplier H ^(Note 8)	Mainly supplies of cement	Since 2016	30 days; by cheque	15,601	4.2
4	Lee Wai Cheong and Wai Cheong Engineering Limited ^(Note 11)	Mainly subcontracting of plastering services	Since 2018	7 days; by cheque	10,559	2.8
5	(i) Cheung Fung Metal Trading Co.; (ii) Cheung Fung Engineering (Hong Kong) Limited; (iii) Cheung Fung International Metal Trading Company Limited; and (iv) Cheung Po Construction Materials Company Limited (v) Cheung Fung Metal Trading Company Limited ^(Note 3)	Mainly supplies of materials and toolings for wet trades work and subcontracting of plastering services	Since 2015	7 days to 30 days; by cheque and bank transfer	8,568	2.3
Top five suppliers combined					81,293	21.8
All other suppliers					292,052	78.2
Total purchases					<u>373,345</u>	<u>100.0</u>

Notes:

1. Chan Tai Chuen and Pak Chuen Construction Engineering Co., Limited (a company owned by Chan Tai Cheun) (“**Pak Chuen Group**”) are mainly engaged in providing wet trades works services. Our Group became acquainted with Pak Chuen Group when they were engaged to perform works by a subcontractor of our Group in one of our wet trades works project in 2008. Subsequently, Pak Chuen Group was admitted to our internal list of approved subcontractors in the same year. Based on our enquiries with Pak Chuen Group, its annual revenue amounted to approximately HK\$30 million and it has the capacity to deploy around 50 to 60 site workers.

BUSINESS

2. Ling Sze Lung Desmond and Man Yee Construction Engineering Limited (a company owned by Ling Sze Lung Desmond) (“**Man Yee Group**”) are mainly engaged in providing wet trades works services. Our Group became acquainted with Man Yee Group when the owner of Man Yee Group was engaged by our Group as an individual contractor in 2012. Since then, our Group had occasionally engaged the owner of Man Yee Group to perform small-scale ad-hoc works as an individual contractor. Man Yee Group was admitted to our internal list of approved subcontractors in 2017. Based on our enquiries with Man Yee Group, its annual revenue amounted to approximately HK\$55 million and it has the capacity to deploy around 100 site workers.
3. Cheung Fung Metal Trading Co., Cheung Fung Engineering (Hong Kong) Limited, Cheung Fung International Metal Trading Company Limited, Cheung Po Construction Materials Company Limited and Cheung Fung Metal Trading Company Limited (“**Cheung Group**”) are a group of entities which have a common management member during the Track Record Period. Cheung Group is mainly engaged in providing plastering services and supplying related materials. Our Group became acquainted with Cheung Group when the owner of Cheung Group was engaged by our Group as an individual contractor over 10 years ago. The owner of Cheung Group subsequently established the first limited liability company within Cheung Group in Hong Kong in 2014 to undertake plastering services and supply related materials, and Cheung Group as a whole was subsequently admitted to our internal list of approved suppliers and subcontractors in 2015. Based on our enquiries with Cheung Group, its annual revenue amounted to approximately HK\$60 million.
4. Supplier D is a company which is mainly engaged in providing wet trades works services. Our Group became acquainted with Supplier D when the owner of Supplier D was engaged by our Group as an individual contractor over 10 years ago. The owner of Supplier D subsequently established a limited liability company in Hong Kong in 2018 to undertake wet trades works, and Supplier D was subsequently admitted to our internal list of approved subcontractors in 2018.
5. To Kwai Kuen and Ka Fat Decoration Company (a sole proprietorship owned by To Kwai Kuen) (“**Ka Fat Group**”) are mainly engaged in providing wet trades works services. Our Group became acquainted with Ka Fat Group when we were engaged in the same project over 10 years ago. Our Group had occasionally engaged the owner of Ka Fat Group to perform small-scale ad-hoc works as an individual contractor since 2012. Ka Fat Group was admitted to our internal list of approved subcontractors in 2017. Based on our enquiries with Ka Fat Group, its annual revenue amounted to approximately HK\$35 million and it has the capacity to deploy around 100 site workers.
6. Y K Engineering Company Limited is a company which is mainly engaged in providing wet trades works services. Mr. KS Chan became acquainted with Y K Engineering Company Limited in 2018 through his business network developed while acting as the president of The Association of Plastering Sub-Contractors Limited of which Y K Engineering Company Limited is a member. Y K Engineering Company Limited was admitted to our internal list of approved subcontractors in 2019. Based on our enquiries with Y K Engineering Company Limited, its annual revenue amounted to approximately HK\$100 million and has the capacity to deploy around 70 to 80 site workers.
7. Pattern Pro Construction Limited is a company which is mainly engaged in providing wet trades works services. Mr. KS Chan became acquainted with an owner of Pattern Pro Construction Limited at an industry event organised by the Association of Plastering Sub-Contractors Limited over 10 years ago. Pattern Pro Construction Limited subsequently approached our Group for potential business opportunities. Pattern Pro Construction Limited was admitted to our internal list of approved subcontractors in 2019. Based on our enquiries with Pattern Pro Construction Limited, its annual revenue amounted to approximately HK\$30 million and it employs approximately 70 employees.

BUSINESS

8. Supplier H is a subsidiary of a company listed on the Euronext Paris which is principally engaged in manufacturing and distributing construction materials worldwide. Our Group became acquainted with a subsidiary of Supplier H ("**Supplier H Subsidiary**") when our Group was engaged in a project in which Supplier H Subsidiary was designated as a construction material supplier over 10 years ago. Supplier H Subsidiary was subsequently acquired by Supplier H by the end of December 2016. Supplier H was admitted to our internal list of approved suppliers in 2016. Based on publicly available information, the annual revenue of Supplier H amounted to over HK\$300 billion and it employs over 170,000 employees worldwide.
9. Chow Chi Kar and Chief Decoration Works (a sole proprietorship owned by Chow Chi Kar) ("**Chief Group**") are mainly engaged in providing wet trades works services. Our Group became acquainted with Chief Group through the introduction of one of our project management staff in 2009. Chief Group was admitted to our internal list of approved subcontractors in 2009. Based on our enquiries with Chief Group, its annual revenue amounted to approximately HK\$15 million and it has the capacity to deploy around 30 to 40 site workers.
10. Poon Kam Chuen is an individual engaged in providing wet trades works services. Our Group became acquainted with Poon Kam Chuen through introduction by a contractor over 10 years ago. Poon Kam Chuen was admitted to our internal list of approved subcontractors in 2012. Based on our enquiries with Poon Kam Chuen, its annual revenue amounted to approximately HK\$20 million and it has the capacity to deploy around 20 to 30 site workers.
11. Lee Wai Cheong and Wai Cheong Engineering Limited (a limited liability company in Hong Kong wholly owned by Lee Wai Cheong) ("**Wai Cheong Group**") are mainly engaged in providing wet trades works services. Our Group became acquainted with Wai Cheong Group when Mr. Lee Wai Cheong was engaged to perform works by a subcontractor of our Group in one of our wet trades works project in 2005. Lee Wai Cheong established Wai Cheong Engineering Limited in 2021 to undertake wet trade works and Wai Cheong Group was subsequently admitted to our internal list of approved subcontractors in the same year. Based on our enquiries with Wai Cheong Group, its annual revenue amounted to approximately HK\$15 million and it has the capacity to deploy around 30 to 40 site workers.

Our Directors are of the view that the nature and extent of services or goods provided to our Group by our top five suppliers during the Track Record Period were commensurate with their nature and scale of operations, taking into consideration (i) the types of goods or services purchased by us from our top five suppliers were in line with their principal business; (ii) the amount of goods or services purchased by us from our top five suppliers for each financial year as compared to their respective annual revenue; (iii) their operating history in the construction and/or wet trades works industry; (iv) their length of business relationship with our Group; and (v) their scale of operations, including annual revenue and scale of workforce (if applicable).

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the top five suppliers of our Group during the Track Record Period. Our Directors confirm that save for the transactions conducted in the ordinary course of business, there is no past or present relationship (employment, family, trust, financing or otherwise) between each of our top five suppliers and our Company or our subsidiaries, their controlling shareholders or beneficial owners, directors or senior management, or any of their respective associates.

BUSINESS

Procurement of subcontracting services from Chief Group

During the Track Record Period, we engaged Mr. Chow Chi Kar and Chief Decoration Works (a sole proprietorship owned by Mr. Chow Chi Kar) (collectively, “**Chief Group**”) mainly for the provision of brick laying services in 30 of our projects. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we incurred subcontracting fees of approximately HK\$3.1 million, HK\$4.2 million, HK\$13.5 million and HK\$4.1 million to Chief Group, respectively. Our Group incurred a relatively higher subcontracting fees to Chief Group for FY2020/21 mainly because Chief Group had provided substantial amount of brick laying services in four of our projects, which accounted for approximately 92.8% of our purchase from Chief Group in the corresponding year. The following table sets forth the details and the amount and types of services procured by us from Chief Group in these four projects in FY2020/21:

Project No.	Customer	Contract sum HK\$'000	Date of commencement and completion of the project ^(Note 2)	Type of services purchased by us from Chief Group	Amount of purchase from Chief Group in FY2020/21 HK\$'000
#07 ^(Note 1)	Customer Group G	110,000	Commencement: March 2020 Completion: March 2023	Mainly subcontracting of brick laying services	7,049
A1	Customer E	15,934	Commencement: November 2020 Completion: January 2022	Mainly subcontracting of brick laying services	2,284
#14 ^(Note 1)	Customer Group A	75,000	Commencement: February 2020 Completion: April 2023	Mainly subcontracting of brick laying services	1,965
A2	First Group	24,258	Commencement: April 2020 Completion: January 2022	Mainly subcontracting of brick laying services	1,257

Notes:

1. For further details, please refer to the paragraph headed “Projects undertaken during the Track Record Period – Top projects undertaken during the Track Record Period” above in this section.
2. The expected completion date for a particular project is provided based on our management’s best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

Based on our enquiries with Chief Group, its annual revenue amounted to approximately HK\$15 million in general. Taking into consideration our subcontracting fees incurred to Chief Group amounted to approximately HK\$13.5 million for FY2020/21, our Directors estimated that

BUSINESS

a significant proportion of revenue derived by Chief Group for the corresponding year was attributable to our Group, which was mainly due to the following factors:

- (i) According to the Industry Report, it is not uncommon in the Hong Kong wet trades works industry for subcontractors to significantly rely on a single customer. Wet trades contractors generally prefer to engage subcontractors with technical expertise and proven track record. Subcontractors generally endeavour to accommodate the demand for its subcontracting services from customer(s) with whom they have established long-term business relationship and with track record of timely payment to the extent their resources allow instead of turning down their requests, resulting in a significant proportion of their revenue being contributed by a single or a limited number of customers;
- (ii) Our Group has established business relationship with Chief Group since 2009. During our long-term business relationship with Chief Group, it has been able to comply with our requirements and specifications and deliver quality works on a timely basis. During the Track Record Period, we had not experienced any material delay in the provision of subcontracting services by Chief Group. Hence, our Group had continually engaged Chief Group as one of our subcontractors according to our internal policy and procedure on the selection of subcontractors and based on terms of engagement which are generally in line with our other subcontractors;
- (iii) Based on our enquiries with Chief Group, our Group is being considered as one of their preferred customers due to (i) our established long-term business relationship with them; (ii) our track record of timely payment; (iii) our Group's ranking as the top Hong Kong wet trades works subcontractor; and (iv) our stable customer base which include reputable construction contractors being subsidiaries of major property developer groups in Hong Kong, which suggests that we were generally able to maintain a stable source of new projects from different customers; and (v) the engagement of Chief Group to perform subcontracting works in our projects awarded by various customers, including Customer Group A, Customer Group D, Customer E, Customer Group G and First Group during the Track Record Period. Chief Group confirmed to us that they would generally accommodate to our demand for their subcontracting services to the extent their resources allow;
- (iv) According to the Industry Report, where a subcontractor obtains certain sizeable project(s) with large contract sum from a single or a limited number of customers, such project(s) would likely contribute a significant proportion of the subcontractor's revenue in the forthcoming years and resulting in a significant proportion of the subcontractor's revenue being contributed by a single or a limited number of customers. During the Track Record Period, our Group had engaged Chief Group to provide brick laying services in certain sizeable projects, such as Project #07, which contributed a significant proportion of its annual revenue; and

BUSINESS

- (v) The site works in our projects are labour intensive in nature. During the Track Record Period, our subcontractors on average deployed over 600 site workers in aggregate monthly to our projects. Sizeable projects generally require more than 80 site workers at the time when the peak amount of works is performed. As compared to the number of site workers our Group generally requires, Chief Group only has the capacity to deploy 30 to 40 site workers, which accounted for less than 10% of the monthly headcount of site workers required by us. Based on the above analysis, our Directors consider that it is not unreasonable for Chief Group to deploy a substantial portion of its resources to our projects, resulting in a substantial amount of revenue being derived from us.

Reasons for subcontracting arrangement

We have focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. According to the Industry Report, wet trades works project generally involves various trade of works and hence it may not be cost efficient for a contractor to undertake all the works involved with its own staff. Our executive Directors confirm that, which is supported by the Industry Report, our subcontracting arrangement is in line with normal market practice.

Basis of selecting our subcontractors

We evaluate subcontractors taking into account their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Based on these factors, we maintain an internal list of approved subcontractors which is updated on a continuous basis. We typically obtain quotations from different suitable subcontractors for comparison and select our subcontractors based on their experience relevant to the particular project as well as their availability and fee quotations.

Basis of selecting our suppliers

We generally purchase materials and toolings from our internal list of approved suppliers. In selecting our suppliers of materials and toolings, we take into account various factors, including pricing, quality of material provided, timeliness of delivery and ability to comply with our requirements and specifications. We maintain an internal list of approved suppliers which is updated on a continuous basis.

BUSINESS

QUALITY CONTROL

We believe that our commitment to quality services is crucial to our reputation and continual success. We place strong emphasis on service quality by implementing a comprehensive quality control system. Chan Kiu has obtained certification certifying its quality management to be in conformance with the requirements of ISO 9001 standard. In conformity with the ISO 9001 standards, our Group has developed and implemented a quality manual which stipulates procedures and control in relation to quality management system, proper filing, communication with customers, revision on quality manual and procedures, employees' training, internal and external audits, evaluation and procurement of materials and toolings and subcontracting services and non-conforming works management.

The quality control measures adopted by our Group include the followings:

Collecting feedbacks from customers

Our executive Directors and senior management team regularly communicate with and conduct site visits to collect feedbacks from our customers. We would follow up and respond to the feedbacks from our customers in a timely manner with a view to maintain and continually improve our service standard. Throughout the project implementation, we may be invited to attend progress meetings held by our customers from time to time to resolve any issues identified in the projects.

Designation of project management team

A project management team is assigned for every project based on the project nature and the relevant qualifications and experiences required. The project management team is headed by the site agent who is responsible for the overall management of the project, including liaising and communicating with our customers, coordinating and providing guidance to the other team members, overseeing the progress, budget and quality of services rendered. Depending on our customers' requests, we are generally required to submit monthly progress reports to our customers throughout the project implementation. Our monthly progress reports are prepared by the project management team which will report on the project status and any issue identified throughout the project. After the review by our senior management team, the monthly progress reports will then be submitted to our customers for record.

BUSINESS

Procurement of materials and toolings

Our Group maintains an approved list of suppliers which is updated on a regular basis. We generally submit sample of materials for our customers' approval before making procurement from our suppliers. Depending on the contract terms with our customers, we may be required to procure the materials of certain designated brands for use in the projects. We may arrange sample inspection on the materials and toolings upon their arrival. Please refer to the paragraph headed "Our suppliers – Basis of selecting our suppliers" above for our procurement policies of materials and toolings. Our suppliers are responsible for replacing any materials and toolings which do not meet the relevant specifications or standards and any associated costs incurred.

Works performed by subcontractors

We remain accountable to our customers for the performance and quality of work rendered by our subcontractors. In general, works performed by our subcontractors are inspected and monitored by our project management team based on our quality management system, environmental management system and occupational health and safety management system which are in conformity with the requirements of ISO 9001, ISO 14001 and OHSAS 18001 and ISO 45001 standards respectively.

We have implemented the following measures to monitor the quality and progress of works outsourced to our subcontractors so as to ensure the compliance with our contract specifications:

- (i) our project management team conducts regular meetings with subcontractors' responsible personnel to review their performance and resolve any issues encountered in the course of their works;
- (ii) our project management team reviews the works performed by our subcontractors on a continual basis during project implementation based on our quality control manual. We assess the performance of our subcontractors based on their (i) ability to meet delivery schedules; (ii) response to instructions; (iii) ability to honour the defects liability period; (iv) management commitment; (v) quality of services; and (vi) cost competitiveness; and
- (iii) our subcontractors are required to follow our guidelines and instructions on our safety management system. Our project management team will closely monitor the on-site safety performance of our subcontractors.

BUSINESS

INVENTORY

In general, materials and toolings are procured by us based on our projects on hand and are delivered to our project sites to meet the estimated demand according to the work schedule of the projects. As such, we did not keep any inventory during the Track Record Period.

MACHINERY

Our self-owned machinery mainly comprise forklifts and plaster spray machines. Our forklifts are mainly used for moving and stacking materials in a short distance area whereas our plaster spray machines are mainly used for spraying plaster on the wall and ceiling. The main benefit of using a plaster spray machine is to speed up the plastering process and enhance the quality of craftsmanship. We generally deploy our self-owned machinery for the use of our subcontractors in carrying out their works in our projects. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we purchased machinery in the amount of approximately HK\$0.4 million, HK\$0.3 million, HK\$0.7 million and HK\$0.8 million at costs, respectively. The following table sets out the types of machinery owned by us:

(i)



Forklifts are mainly used for moving and stacking materials in a short distance area

(ii)



Plaster spray machines are mainly used for spraying plaster on the wall and ceiling

BUSINESS

The following table sets out the details of our machinery:

	As at 31 March 2019	As at 31 March 2020	As at 31 March 2021	As at 31 March 2022	As at the Latest Practicable Date
	<i>No. of units</i>	<i>No. of units</i>	<i>No. of units</i>	<i>No. of units</i>	<i>No. of units</i>
Forklifts	5	5	4	3	3
Plaster spray machines	24	27	33	39	39
Total	29	32	37	42	42

The following table sets out the remaining useful life of our machinery as at 31 March 2022:

	Fully depreciated or less than one year	One year to less than two years	Two years to three years
	<i>No. of units</i>	<i>No. of units</i>	<i>No. of units</i>
Forklifts	1	–	2
Plaster spray machines	29	4	6
Total	30	4	8

Although our Directors consider that our existing machinery were in operative conditions in general, the probability and frequency of breakdown or malfunction of our existing machinery will increase as such machinery ages. Our Directors consider that continued investments in machinery are necessary in order to cope with our business development and increase our overall operational efficiency and capacity in performing our site works. As such, we plan to acquire additional machinery in the future, further information of which is disclosed in the paragraph headed “Business strategies” above in this section and the section headed “Future plans and use of [REDACTED]” in this document.

As at the Latest Practicable Date, our Group owned three forklifts, which are Regulated Machines and are subject to the NRMM Regulation. For further details, please refer to the paragraph headed “Regulatory overview – Laws and regulations in relation to environmental protection – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)”.

BUSINESS

Apart from the above, our Group owned three motor vehicles as at the Latest Practicable Date for the transportation of our project management staff.

Depending on the service capacity and availability of our machinery, we may also lease certain machinery, such as forklift, plaster spray machine, elevating work platforms and scaffolding platform, from rental service providers.

Safe keeping of machinery

Our machinery is generally stored at the construction sites of our ongoing projects from time to time unless the relevant machinery was under repair and maintenance.

Repair and maintenance

We continuously monitor the operating conditions of our owned machinery, based on which we make replacement and/or repair and maintenance decisions on an ongoing basis. Repair and maintenance works are carried out by external mechanics engaged by us as needed. For FY2018/19 and FY2019/20, FY2020/21 and FY2021/22, we incurred repair and maintenance expenses for our machinery of approximately HK\$0.8 million, HK\$0.3 million, HK\$0.3 million and HK\$0.4 million, respectively.

INSURANCE

We undertook projects in the role of subcontractor during the Track Record Period. Our executive Directors confirmed that our wet trades works were covered by the employees' compensation insurance, third party liability insurance and contractor's all risks insurance taken out by the main contractors for the entire construction projects. Such insurance policies covered and protected all employees of main contractors and subcontractors of all tiers working in the relevant construction site and works performed by them in the relevant construction site.

Our Group has also maintained employees' compensation insurance for our executive Directors and employees at our office. In addition, we have taken out third-party liability insurance regarding the use of our motor vehicles.

Our executive Directors consider that our insurance coverage is adequate and consistent with the industry norm having regard to our current operations and the prevailing industry practice.

BUSINESS

Uninsured risks

Certain risks disclosed in the “Risk factors” section of this document, such as risks in relation to our ability to obtain new contracts, our ability to retain and attract personnel, credit risk and liquidity risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed “Risk management and internal control systems” below in this section for further details regarding how our Group manages certain uninsured risks.

EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had a total of 82 employees (including our two executive Directors but excluding our three independent non-executive Directors). All our employees were stationed in Hong Kong. The following table sets out a breakdown of our employees by function:

	As at 31 March 2019	As at 31 March 2020	As at 31 March 2021	As at 31 March 2022	As at the Latest Practicable Date
General management	2	2	2	2	2
Project supervision	21	18	25	28	28
Safety supervision	4	4	5	6	6
Quantity surveyors	7	6	8	9	10
General workers	46	39	32	27	25
Finance and administration	8	8	10	11	11
	<u>88</u>	<u>77</u>	<u>82</u>	<u>83</u>	<u>82</u>

Training and recruitment policies

We generally recruit our employees from the open market. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and determines whether additional personnel is required to cope with our business development from time to time.

We provide various types of training to our employees and sponsor our employees to attend various training courses covering areas such as technical knowledge relating to the carrying out of wet trades works, safety, first aids, and environmental matters. Such training courses include our internal trainings as well as courses organised by external parties such as the Occupational

BUSINESS

Safety and Health Council. Employees carrying out construction works at construction sites are generally required to be registered pursuant to the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong), which imposes certain training requirements on workers prior to registration, details of which are set out in the paragraph headed “Regulatory overview – Laws and regulations in relation to labour, health and safety” in this document. As at the Latest Practicable Date, all of our employees carrying out construction works on construction sites were registered under the Construction Workers Registration Ordinance.

Staff costs and remuneration policy

In general, our Group determines employees’ salaries based on their qualifications, position and seniority. In order to attract and retain valuable employees, our Group reviews the performance of our employees annually which will be taken into account in annual salary review and promotion appraisal.

Our Group incurred staff costs (including director’s remuneration) of approximately HK\$30.7 million, HK\$28.6 million, HK\$28.8 million and HK\$32.6 million for FY2018/19, FY2019/20, FY2020/21 and FY2021/22, respectively.

Employee relationship

Our Directors believe that we have maintained a good relationship with our employees. Save as disclosed in the paragraph headed “Litigations and claims” below in this section, we have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor have we experienced any material difficulties in the recruitment and retention of experienced core staff or skilled personnel during the Track Record Period. There has not been any trade union set up for our employees.

LICENCES AND QUALIFICATIONS

Given that all the necessary licences, permits or approval required for projects in which we are involved are arranged by the relevant main contractors, there is no particular licence, permit or approval required to be obtained by us in providing wet trades works services as a subcontractor under private sector projects except the business registration. Meanwhile, subcontractors engaged under the public sector projects initiated by the Government are required to possess registration under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) of the Construction Industry Council. For further details, please refer to the paragraph headed “Regulatory overview – Laws and regulations in relation to contractor licensing regime and operation – Registered Specialist Trade Contractors Scheme” in this document.

BUSINESS

Both of our principal operating subsidiaries, Chan Kiu and Ying Wai, are registered specialist trade contractors in the designated trade category of plastering under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council, details of which are summarised as follows:

Type of registration	Granted by	Granted to	Designated trade	Grouping	Date of upcoming expiry date
Registered specialist trade contractor	Construction Industry Council	Chan Kiu	Plastering	Group 2	4 November 2023
Registered specialist trade contractor	Construction Industry Council	Ying Wai	Plastering	Group 2	28 October 2023

Our executive Directors are of the view that our aforesaid licences and registrations are adequate for our business needs. As advised by the Legal Counsel, there was no legal impediment to the renewal of the above registrations by our Group as at the Latest Practicable Date.

ENVIRONMENTAL COMPLIANCE

Our Group’s operations are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, waste disposal and compliance with the relevant NRMM regulations during the Track Record Period. For details of the regulatory requirements, please refer to the section headed “Regulatory overview” in this document. According to the Industry Report, the arrangements for construction waste disposal from the site works are generally handled by the main contractors.

For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we incurred approximately HK\$12,000, HK\$16,000, HK\$18,000 and HK\$8,000, respectively, directly in relation to the compliance with applicable environmental requirements. Such amounts mainly included costs in relation to dust control measures. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation and affected by our agreements with customers and subcontractors as to the party responsible for bearing the relevant costs from project to project.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements that resulted in prosecution, conviction or penalty being brought against us.

BUSINESS

OCCUPATIONAL HEALTH AND WORK SAFETY

Our Group places emphasis on occupational health and work safety. In 2018, we have established an occupational health and safety management system which is certified to be in compliance with OHSAS 18001 and ISO 45001 standards in order to promote a safe and healthy working environment.

Our project management team is responsible for overseeing the implementation of our occupational health and safety policies and to ensure that we comply with applicable occupational health and safety standards. Our Group has put in place an internal safety plan which is reviewed from time to time to incorporate the best practices and to address and improve specific areas of our safety management system. We require our employees and our subcontractors' employees to follow our safety rules as set out in the safety plan. Our safety rules identify common safety and health hazards and recommendations on prevention of workplace accidents. We also provide suitable personal protective equipment such as full-body harness, safety helmet and safety boots to our employees and our subcontractors' employees based on the type of works undertaken by them.

The Construction Sites (Safety) Regulations prescribe that on a construction site where workers are at the risk of falling from a height of two meters or more, the contractor shall take adequate steps to ensure the safety of these workers, including the provision of suitable and adequate quantities of planks and toe-boards to be served as working platforms. During the Track Record Period, some of our major customers, such as Customer Group A and Customer Group D, had taken up the responsibility for providing adequate quantities of planks and toe-boards. However, we were required under the contracts with some of our major customers, including Sanfield and Customer Group G, to arrange adequate quantities of planks and toe-boards on our own account for the use in their projects.

Our safety supervisor regularly provides guidance to our workers and subcontractors on correct and safe working practices. We may impose fines on or remove the subcontractors who have repeatedly breached the internal safety procedures from our internal approved list of subcontractors. We also hold regular meetings with our subcontractors to discuss on the implementation of safety measures and follow up with any safety issues identified during the course of project implementation.

We have designated Mr. WP Chan to oversee our safety department which is primarily responsible for implementing the safety management system at our project sites. Further, we have set up a safety committee at the corporate level with Mr. WP Chan as its chairperson, Mr. KS Chan as its vice-chairperson and Mr. Lai Wai Hung as its member, having the function of enforcing safety policies, reviewing and assessing safety policies, cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards, accident rates and any non-compliance with applicable safety-related laws and regulations, meetings of which should be held on a monthly basis. For qualifications and experience of Mr. WP Chan, Mr. KS Chan and Mr. Lai Wai Hung, please refer to the section headed "Directors and senior management" in this document.

BUSINESS

During the Track Record Period, we engaged safety auditors for the purpose of conducting safety audits on our safety management system on a semi-annual basis in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulations. During the course of the safety audits, the safety auditors (i) conducted physical inspection on selected sites to assess if our established safety management system was implemented in accordance with the relevant laws and regulations in Hong Kong; (ii) conducted interview with personnel selected from different levels; (iii) obtained documents for review to assess the adequacy and effectiveness of our safety management system; and (iv) suggested areas of improvements and recommendations on our safety management system. Upon completion of the safety audits, the safety audit reports were submitted to our safety officer and executive Directors for review and then submitted to the Labour Department. Our Directors confirmed that no material deficiencies in relation to our safety management system had been identified by the safety auditors and that our safety management system had continually fulfilled the relevant safety regulations in all material respects.

To further enhance the safety awareness of our employees and our subcontractors' employees and to minimise the relevant safety risks in the execution of our projects, we have engaged the Safety Consultant to perform a review on our existing occupational health and safety management system and to assess the adequacy and effectiveness of our occupational health and safety management system in September 2020.

The Safety Consultant consisted of a professional individual who is a chartered member and registered safety practitioner of the Institution of Occupational Safety and Health of the United Kingdom. The Safety Consultant had provided safety-related consultancy services to over 10 listed issuers on the Stock Exchange which engage in the construction industry in Hong Kong. The person in-charge of the Safety Consultant has more than 20 years of experience in attending to construction-related safety matters in Hong Kong. He had held safety supervisory roles at various established construction firms in Hong Kong prior to joining the Safety Consultant.

Having reviewed, among other things, (i) records pertaining to the accidents during the Track Record Period and up to the Latest Practicable Date; (ii) the existing safety measures and procedures adopted by our Group; (iii) records pertaining to our implementation of safety measures and procedures; and (iv) having carried out on-site inspections at selected work sites in which we were carrying out our works, the Safety Consultant is of the view that the existing occupational health and safety management system of our Group is adequate and effective. For further details on the basis for the Safety Consultant's view, please refer to the paragraph headed "The Safety Consultant's view on the adequacy and effectiveness of our safety management system" in this section below.

BUSINESS

Measures in response to the outbreak of COVID-19

In response to the outbreak of COVID-19 in Hong Kong, we have implemented the following hygiene and safety related measures:

- requesting staff and workers to wear surgical masks both at office and works sites;
- monitoring the stock of personal protective equipment (including but not limited to surgical masks and hand sanitizer) for our employees;
- conducting mandatory body temperature check before entering works sites and random body temperature check at works sites during the day;
- requesting staff and workers to maintain personal hygiene and those who have respiratory symptoms shall be refrained from working and be asked to seek medical advice promptly;
- placing health educational materials on COVID-19 at prominent areas of our office and works sites; and
- if any staff or workers are requested by the Department of Health to be quarantined or have been confirmed to have contracted the COVID-19, their respective department or project management team will be informed and requested to keep on record. Any other staff or workers who has close contact with such staff or workers shall also be informed.

Confirmed cases of COVID-19 at the project sites of our projects

In late January 2021, several confirmed COVID-19 cases were reported at the project site of Project #18 located in Yau Ma Tei (the “**Yau Ma Tei Site**”). For further details on Project #18, please refer to the paragraph headed “Projects on hand” in this section. In order to contain the transmission of COVID-19 and to facilitate disinfection at the Yau Ma Tei Site, the Centre for Health Protection under the Department of Health of the Government advised that all construction activities at the Yau Ma Tei Site to be suspended for 14 days with effect from 28 January 2021. Construction works at the Yau Ma Tei Site had resumed subsequent to the temporary works suspension.

Upon the resumption of works, the main contractor of Project #18 announced a series of elevated social distancing measures to contain the transmission of COVID-19 at the Yau Ma Tei Site including, thorough disinfection of the Yau Ma Tei Site and requiring all workers to provide valid proof of negative COVID-19 test result, undergo mandatory body temperature check and fill in health declaration form before entering the Yau Ma Tei Site. Our executive Directors confirmed that the confirmed COVID-19 cases reported at the Yau Ma Tei Site were not related to our employees or our subcontractors’ employees.

BUSINESS

Our executive Directors considered that the temporary works suspension at the Yau Ma Tei Site did not result in material business or financial impact to our Group, taking into consideration (i) based on the best estimation of our management, the current project status of Project #18 was in line with its expected project schedule; (ii) we did not receive any other suspension order or notice in relation to Project #18 after the temporary works suspension and up to the Latest Practicable Date; and (iii) we did not experience any cancellation of work orders in respect of Project #18 as at the Latest Practicable Date as a result of the temporary works suspension.

Impact of the fifth wave of outbreak of COVID-19 on our operations

Since January 2022 and up to April 2022, Hong Kong has recorded the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant (the "**Fifth Wave Outbreak**"), as the daily number of confirmed cases increased significantly during the period. To a certain extent, we were adversely affected by the Fifth Wave Outbreak from February 2022 to April 2022, details of which are set out as follows:

- Some of our employees and our subcontractors' employees have been tested positive of COVID-19. We recorded 28 confirmed cases relating to our employees up to the Latest Practicable Date. To the best knowledge of our Directors after making reasonable enquiries, saved as two employees who have been tested positive in early July 2022, all of our employees who were previously tested positive for COVID-19 have already resumed work as at the Latest Practicable Date;
- Confirmed COVID-19 cases were reported at the project sites of three of our projects, namely Project #18, #19 and O15 during the Fifth Wave Outbreak. In order to contain the transmission of COVID-19 and to allow for thorough disinfection, all construction activities on those project sites were temporarily suspended (collectively, the "**Temporary Works Suspensions**"). Project #18 was suspended for three days, Project #19 was suspended for two days and Project O15 was suspended for four days, mainly for disinfection. As at the Latest Practicable Date, the Temporary Works Suspensions have been lifted and we have resumed work on the aforementioned projects. Our Directors confirmed that the impact of the Temporary Works Suspensions to our Group was temporary and not material, taking into consideration that (i) the Temporary Works Suspensions were short-lived and did not result in any material delay in the project schedule; (ii) we have resumed business operation in full scale since early-April 2022 and we had not experienced any material operational disruption thereafter; (iii) based on the best estimation of our management, the projects affected by the Temporary Works Suspensions are expected to complete according to their respective project schedule; and (iv) we did not experience any cancellation of existing work orders in respect of the projects affected by the Temporary Works Suspensions; and

BUSINESS

- Our Group experienced temporary disruption to the supply of materials and toolings from February 2022 to late-April 2022 due to brief disruption to the supply chain and cross-border transportation, which resulted in temporary impediment to our operation during the Fifth Wave Outbreak. Our Directors consider that the temporary disruption to the supply of materials and toolings did not have long-lasting adverse impact on our operation taking into consideration (i) the supply chain for construction materials and toolings and cross-border transportation have resumed to normal level since late-April 2022 and we have not experienced any material disruption in the supply of materials and toolings thereafter; and (ii) we have used our best endeavour to mitigate the impact of disruption through sourcing materials and toolings from suppliers with adequate inventories.

The Fifth Wave Outbreak resulted in certain adverse impact to our Group's business operations and financial performance. Based on our unaudited management account, our revenue decreased by approximately 30% and our gross profit decreased by approximately 20% for the three months ended 31 March 2022, as compared to the corresponding period in 2021. Meanwhile, our operation has fully resumed since late-April 2022.

Save as disclosed above and based on information available as at the Latest Practicable Date, our executive Directors consider that the outbreak of COVID-19 did not result in any material impact on our Group's operation and financial performance or material adverse change to our expansion plan based on the following factors:

- we had not experienced any significant project delay and/or cancellation of work orders from our customers;
- we had not experienced any material delay in the settlement of payment to us by our customers as a result of the outbreak of COVID-19;
- we had not experienced any material decline in the number of tender invitations received by us following the outbreak of COVID-19;
- as at the Latest Practicable Date, our Group had a total of 42 tenders which were still undergoing tender selection process and pending tender result. None of the customers of these tendered projects have notified us that such projects had been cancelled or revoked;
- based on information publicly available and reasonable enquiries by our executive Directors, we are not aware of any suggestion or indication that our major customers suffered from material financial difficulties as a result of the outbreak of COVID-19;
- we had not experienced any material difficulties in making procurement of materials and/or subcontracting services;

BUSINESS

- we had not experienced any material delay in delivery of materials and/or subcontracting services by our suppliers and subcontractors; and
- according to the Industry Report, some of the ongoing construction projects in Hong Kong have been postponed in progress due to the outbreak of COVID-19 in 2020, which led to the temporary decrease in demand for construction works as well as wet trades works in Hong Kong. The operation of construction activities had not been materially affected by COVID-19 and it is expected that in general the operation of construction industry in Hong Kong will not be materially affected in the near future and the outlook of wet trades works market will remain positive, as it is driven by the planned urban development and strong demand from the residential and commercial sectors in the long-run.

Role and responsibilities of our Group in ensuring the safety compliance and conditions at the project sites of the main contractors

Our Group primarily focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform substantial part of the site works under our supervision. Typically, our role and responsibilities in ensuring the safety compliance and conditions at the project sites of the main contractors include the following:

- as required by the main contractors, a mandatory safety training course must be taken by every construction site worker (including both our Group's and our subcontractors' employees) who is required to obtain a valid certificate (also known as "green card") before he/she is allowed to enter a construction site. Our Group also organises or arranges site safety induction briefing sessions for workers on the first day of work and provides trainings for the workers on site, including subcontractors' employees. Topics of the safety training typically cover safety procedures for performing different types of work (e.g. working at height), safety procedures for emergency and duties and procedures for reporting hazards, incidents, accidents and diseases, potential hazards in respect of the work sites, function and proper usage of personal protection equipment, contingency measures at work sites, and good housekeeping of workplaces;
- effective promotion and communication of safety procedures are maintained through among others, establishing safety incentives scheme with cash coupon to good safety performance workers, holding regular internal and external safety meetings, documenting safety measures and issues identified for each project by preparing safety reports and training records;
- all workers on site, including subcontractors' employees, are required to follow the general safety rules adopted by our Group and the main contractors which are communicated to the workers before they commence work and posted on prominent notice boards on site. In particular, our Group's safety rules have stipulated safe working practices for work-at-height covering areas such as (i) access to and egress

BUSINESS

from scaffolds; (ii) proper erection of working platform; (iii) regular inspection of scaffold by competent person; and (iv) use of personal protection equipment including fall arrestor and safety harness. Workers who breach any such rules will be subject to internal disciplinary actions;

- risk assessments are generally conducted by our Group's safety officer to identify the potential hazards and accidents and provide suggestion on proper preventive measures prior to commencement of works and safety committee is set up at site level;
- site inspections are carried out at least once a week by our Group's safety supervisors to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations; and
- safety audits and safety reviews are conducted in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulation.

Handling and recording of workplace accidents

Our Group has a system in place for handling and recording work accidents during the Track Record Period and up to the Latest Practicable Date. Set out below is our general procedures for handling and recording work accidents:

- Upon occurrence of an accident, we require the injured worker or person who witnessed the accident to report to our safety supervisor about the details of the accident on a timely basis, including the venue, time, cause of injury, etc. Our safety supervisor will then report the accident to the relevant main contractor.
- Our safety supervisor will prepare a notice of accident and send the notice of accident to the site agent and our administrative staff detailing the venue, date and time of the accident, name of the injured, details of the accident and injury and follow up action performed by the safety supervisor after the occurrence of the accident. Our administrative staff maintains a master file for recording all details of injury cases.

The tables below set out the breakdown of the number of personal injury accidents by year/period and the nature of the personal injury accidents occurred during the Track Record Period and up to the Latest Practicable Date:

	Number of accidents
For the year ended 31 March 2019	12
For the year ended 31 March 2020	8
For the year ended 31 March 2021	8
For the year ended 31 March 2022	19
From 1 April 2022 to the Latest Practicable Date	7
Total:	54^(Note)

BUSINESS

Note: Based on evidence available to our Group and the accident investigation reports prepared by our Group, out of the above 54 accidents:

- (i) 27 accidents whose primary responsibility was attributable to the injured workers for not paying attention to the work environment, carelessness or inappropriate use of tools or equipment;
- (ii) five accidents whose primary responsibility was attributable to the subcontractors’ workers for failing to observe and comply with the safety guidelines and instructions, such as failing to use or properly use the personal protective equipment, despite all the safety trainings and personal protective equipment have been provided;
- (iii) one accident whose primary responsibility was attributable to our own workers for failing to observe and comply with the safety guidelines and instructions, such as failing to use or properly use the personal protective equipment, despite all the safety trainings and personal protective equipment have been provided;
- (iv) three accidents whose primary responsibility was attributable to the subcontractors for providing defective personal protective equipment or failing to maintain the safety of the work sites;
- (v) one accident whose primary responsibility was attributable to the main contractor for failing to maintain the safety of the work site;
- (vi) one accident which involve the injured worker falling down from height. The actual cause of the accident is still under investigation; and
- (vii) the remaining 16 accidents were considered as natural accidents which occurred notwithstanding (a) the main contractors, our Group or the subcontractors have provided all the safety trainings and personal protective equipment; (b) the injured workers seem to have observed and complied with the safety guidelines and instructions.

The aforesaid classification was compiled by safety officer of the Group after discussion with the Safety Consultant, having regarding to the particulars of each accident involved.

Nature of accident	Number of accidents that involved our workers	Number of accidents that involved workers of our subcontractor
Slipped, tripped or fell on the same level	5	11
Injured whilst lifting or carrying	3	7
Struck by moving or falling object	5	8
Striking against fixed or stationary object	–	6
Striking against moving object	1	2
Fell from height <i>(Note)</i>	–	2
Being trapped by door	1	–
Flying object into the eye	–	2
Inhalation of chemical	1	–
Total:	16	38

BUSINESS

Note: These include a fatal accident which occurred in December 2019 and an accident occurred in May 2021. In respect of the fatal accident occurred in December 2019, please refer to the paragraph headed "Occupational health and work safety – Fatal accident occurred in December 2019" below in this section. In respect of the accident occurred in May 2021, it was alleged that the worker fell down from height. The actual cause of the accident is still under investigation as at the Latest Practicable Date. Please refer to the paragraph headed "Occupational health and work safety – Wong Chuk Hang Suspension Notice in May 2021" below in this section for further details.

We have adopted the following safety measures to prevent the occurrence of similar accidents:

Nature of accident	Safety control measures implemented
Personal injury in connection with worker slipping, tripping or falling on the same level	Workers are required to strictly follow our Group's relevant safety procedure to put all objects and materials orderly in the specified location securing the tidiness of the work site. Workers are required to wear safety footwear and be aware of slippery floor.
Personal injury in connection with worker being injured whilst lifting or carrying	We always seek to minimise the needs for our workers to handle and lift heavy materials whenever possible. Where manual handling of heavy materials is inevitable, our Group will arrange for relevant machinery such as forklifts or carts to facilitate such manual works. Training to workers in relation to the correct lifting or carrying techniques are also conducted in accordance with the relevant rules and regulations.
Personal injury in connection with worker being struck by moving or falling object	Workers are required to strictly follow our Group's relevant safety procedure to wear protective gear at the work site.
Personal injury in connection with worker striking against fixed or stationary object	Workers are required to strictly follow our Group's relevant safety procedure to put all objects and materials orderly in the specified location securing the tidiness of the work site.
Personal injury in connection with worker striking against moving object	Workers are required to strictly follow our Group's relevant safety procedures for operating various types of power tools. Only trained workers are permitted to operate certain power tools according to our in-house safety rules.

BUSINESS

Nature of accident	Safety control measures implemented
Personal injury in connection with worker falling from height	Workers are required to strictly follow our Group's relevant safety rules whilst working at height. For works to be conducted at scaffold and at height of two metres or above, the relevant working platforms or structures shall be inspected by competent person before commencement of work and regularly during the course of execution of the work. Depending on the height of works, each worker is strictly required to wear safety harness with double lanyards. For the scaffold and working platform provided by main contractor, valid reports of scaffolds inspection in the form prescribed by the Commission for Labour shall be available and checked by our safety supervisor/site foreman before commencement of work.
Personal injury in connection with worker being trapped by door	Workers are required to strictly follow our Group's relevant safety procedure in wearing protective gear when entering the site.
Personal injury in connection with flying object into the eye	Workers are required to strictly follow our Group's relevant safety procedure in wearing eye goggles for hammering work.

Fatal accident occurred in December 2019

In December 2019, a fatal accident occurred at the site of Lohas Park, New Territories, Hong Kong (the "**Lohas Park Site**") under Project #10, at which our Group was engaged to provide wet trades works. One construction worker, being an employee of a subcontractor of our Group, sustained fatal injury during the course of work. It was suspected that the worker fell down from height when performing tile finishing works on the bamboo scaffolding working platform at the Lohas Park Site (the "**Lohas Park Accident**").

After the occurrence of the Lohas Park Accident, the main contractor had followed the proper procedures including making necessary filing with the Labour Department and notifying the relevant insurer. In light of the Lohas Park Accident, the Labour Department issued three suspension notices (the "**Lohas Park Suspension Notices**") in accordance with the Occupational Safety and Health Ordinance to Chan Kiu on 11 December 2019, pursuant to which workings relating to bamboo scaffoldings at the said tower located on the Lohas Park Site shall be suspended until further notice and/or revocation of the notices. The Labour Department had revoked two of the Lohas Park Suspension Notices on 17 February 2020 and the remaining Lohas Park Suspension Notice on 12 March 2020 and we had resumed the relevant works accordingly.

BUSINESS

On 10 June 2020, five summonses (the “**Lohas Park Summonses**”) were issued under the Magistrates Ordinance (Chapter 227 of the Laws of Hong Kong) against Chan Kiu in relation to the Lohas Park Site. During the trial of the Lohas Park Summonses, the prosecution offered no evidence and the Lohas Park Summonses were dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted of all the Lohas Park Summonses. The details of the Lohas Park Summonses are set out in the paragraph headed “Litigations and claims – Litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date” below in this section.

Having reviewed, among other things, (i) records pertaining to the Lohas Park Accident; (ii) the existing safety measures and procedures adopted by our Group as set out in details in the paragraph headed “The Safety Consultant’s view on the adequacy and effectiveness of our safety management system” below in this section; (iii) records pertaining to our implementation of safety measures and procedures; (iv) on-site inspections at the Lohas Park Site; (v) independent safety audit reports; (vi) the Lohas Park Suspension Notices; and (vii) the dismissal of the Lohas Park Summonses, the Safety Consultant is of the view that no material deficiency in relation to our Group’s safety management system was identified in the Lohas Park Accident and the existing occupational health and safety management system of our Group is adequate and effective. For further details on the basis for the Safety Consultant’s view, please refer to the paragraph headed “The Safety Consultant’s view on the adequacy and effectiveness of our safety management system” below in this section.

Our Legal Counsel’s view as to our legal liability

Subsequent to the date of the Lohas Park Accident and up to the Latest Practicable Date, no civil claims in relation to the Lohas Park Accident had been initiated against our Group. The main contractor had taken out employees’ compensation insurance to cover the risk of injury or death sustained by workers in their course of employment under the main contractor and/or its subcontractors at different tiers. As advised by the Legal Counsel, the amount of the potential employees’ compensation claim and/or common law personal injury claim to be borne by our Group, if any, shall be covered by the insurance policy maintained by the main contractor with a limit of indemnity at HK\$200 million for any one accident. The Legal Counsel further advised that there is nothing to suggest that the relevant employees’ compensation insurance was not valid and not subsisting to cover the potential civil claims, if any, arising out of the Lohas Park Accident to be commenced by the deceased worker’s executor or administrator or that the insurer will repudiate coverage. The Legal Counsel is of the view that the relevant employees’ compensation insurance would be sufficient to cover the potential civil claims, if any, arising out of the Lohas Park Accident to be commenced by the deceased worker’s executor or administrator, as the prescribed minimum insurance coverage amount under the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) was set after consultations and studies by the Government and the Legislative Council had not invoked its power under the Employees’ Compensation Ordinance to amend such amount as at the Latest Practicable Date.

BUSINESS

Adequacy and effectiveness of our safety management system

Notwithstanding the occurrence of the Lohas Park Accident, our executive Directors and the Safety Consultant are of the view that this is an isolated incident and the existing safety management system of our Group is adequate and effective based on the following factors:

- During the Track Record Period, we have engaged safety auditors for the purpose of conducting safety audits on our safety management system on a semi-annual basis in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulation. The latest safety audit conducted pursuant to the statutory requirements for the Lohas Park Site were in December 2021. Based on the safety audit report, no material deficiencies in relation to our safety management system has been identified by the safety auditors.
- Prior to the commencement of works, our project management staff had provided site safety specific induction training to the deceased worker, which covered, among other things, introduction to our site safety supervision personnel, our occupational health and safety policies as well as safety practice, potential hazards in respect of the work sites, function and proper usage of personal protection equipment, contingency measures at work sites and the use of first-aid equipment.
- Prior to the commencement of works, the deceased worker had acknowledged in writing the receipt of personal protection equipment from our Group, including but not limited to full-body safety harness with lanyard, fall arrestor, safety helmet and safety boots.
- Our Group has put in place an internal safety plan which is reviewed from time to time to incorporate the best practices and to address and improve specific areas of our safety management system. We require our employees and our subcontractors' employees to follow our safety rules as set out in the safety plan. Our safety rules identify common safety and health hazards and recommendations on prevention of workplace accidents. In particular, our safety rules have stipulated safe working practices for work-at-height covering areas such as (i) access to and egress from scaffolds; (ii) proper erection of working platform; (iii) regular inspection of scaffold by competent person; and (iv) use of personal protection equipment including safety nets and safety belt.
- After the occurrence of the Lohas Park Accident, our Group issued a warning letter to our subcontractor who employed the deceased worker, requiring him to enhance his safety supervision measures and to ensure compliance with the work safety measures imposed by our Group and the main contractor. According to the letter, we shall remove such subcontractor from our internal approved list of subcontractors for a two-year period and cease our existing engagements with him should there be any material non-conformance with the aforesaid requirements following the issue of our letter.

BUSINESS

Impact on our operations and financial position

Our executive Directors are of the view that the Lohas Park Suspension Notices, which caused a temporary suspension of the relevant works as discussed above, would have no material impact on the progress of the relevant project given that (i) based on the best estimation of our management, the current project status was in line with the expected project schedule; (ii) the list of works subject to the Lohas Park Suspension Notices were limited to workings relating to bamboo scaffoldings at the said tower located on the Lohas Park Site, and other wet trades works at the Lohas Park Site remains unaffected; and (iii) the Labour Department has revoked all of the Lohas Park Suspension Notices by 12 March 2020.

Our executive Directors are of the view that the Lohas Park Accident and the Lohas Park Suspension Notices would not have any material adverse impact on our Group's operations and financial position. Based on the advice of the Legal Counsel, the employees' compensation insurance policy taken out by the main contractor would be sufficient to cover the potential civil claim brought against our Group under the Lohas Park Accident. As advised by the Legal Counsel, the amount of the potential employees' compensation claim and/or common law personal injury claim to be borne by our Group, if any, shall be covered by the insurance policy maintained by the main contractor with a limit of indemnity at HK\$200 million for any one accident. The Legal Counsel further advised that there is nothing to suggest that the relevant employees' compensation insurance was not valid and not subsisting to cover the potential civil claims, if any, arising out of the Lohas Park Accident to be commenced by the deceased worker's executor or administrator or that the insurer will repudiate coverage. The Legal Counsel is of the view that the relevant employees' compensation insurance would be sufficient to cover the potential civil claims, if any, arising out of the Lohas Park Accident to be commenced by the deceased worker's executor or administrator, as the prescribed minimum insurance coverage amount under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) was set after consultations and studies by the Government and the Legislative Council had not invoked its power under the Employees' Compensation Ordinance to amend such amount as at the Latest Practicable Date. Further, the relevant customer in respect of the Lohas Park Site had not informed us of any intention to terminate the relevant works contract with us or to cease inviting us to tender or awarding contracts to us in the future. Following the occurrence of the Lohas Park Accident in December 2019 and up to the Latest Practicable Date, our Group had continued to receive tender invitations from different potential and existing customers. For FY2020/21, our Group had responded to our customers' tender invitations by submitting a total of 135 tenders of which our Group was awarded with 17 projects. Among these submitted tenders, 23 tenders were submitted to the relevant customer in respect of the Lohas Park Site, of which we had been awarded with four projects. For FY2021/22, our Group had responded to our customers' tender invitations by submitting a total of 111 tenders of which our Group was awarded with 19 projects. Therefore, our executive Directors consider that the Lohas Park Accident did not result in any material impact on our ability to obtain new business opportunities from our customers.

BUSINESS

Potential impact on the status of our registration

According to the Rules and Procedures for the Register of Subcontractors issued by the Construction Industry Council, convictions under the Factories and Industrial Undertakings Ordinance in relation to serious construction site safety incidents resulting in loss of life may call for regulatory actions. During the trial of the Lohas Park Summonses, the prosecution offered no evidence and the Lohas Park Summonses were dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted of all the Lohas Park Summonses.

The Legal Counsel is of the view that there was no legal impediment to the renewal of the registration of Chan Kiu under the Registered Specialist Trade Contractors Scheme as at the Latest Practicable Date, taking into account the dismissal of the Lohas Park Summonses.

Wong Chuk Hang Suspension Notice in May 2021

In May 2021, an accident (the “**Wong Chuk Hang Accident**”) occurred at the site of Wong Chuk Hang, Hong Kong Island, Hong Kong (the “**Wong Chuk Hang Site**”) under Project #16, at which our Group was engaged to provide wet trades works. One construction worker, being an employee of a subcontractor of our Group, sustained injury during the course of work. It was alleged that the worker fell down from height. The actual cause of the accident is still under investigation and the nature and severity of injuries are still unknown as at the Latest Practicable Date. To the best of our Directors’ knowledge, the injured worker is in a stable condition.

After the occurrence of the Wong Chuk Hang Accident, the main contractor had followed the proper procedures including making necessary filing with the Labour Department and notifying the relevant insurer. In light of the Wong Chuk Hang Accident, the Labour Department issued a suspension notice (the “**Wong Chuk Hang Suspension Notice**”) in accordance with the Occupational Safety and Health Ordinance to Chan Kiu on 20 May 2021, pursuant to which tile work on the external wall of the relevant towers located on the Wong Chuk Hang Site shall be suspended until further notice and/or revocation of the notice. The Labour Department had revoked the Wong Chuk Hang Suspension Notice on 22 June 2021 and thereafter we had resumed the tile works on the external wall of the relevant towers accordingly.

On 19 November 2021, four summonses (the “**WCH Summonses**”) were issued under the Magistrates Ordinance (Chapter 227 of the Laws of Hong Kong) against Chan Kiu in relation to the Wong Chuk Hang Site. The details of the WCH Summonses are set out in the paragraph headed “Litigations and claims – Ongoing criminal litigations against our Group as at the Latest Practicable Date” below in this section.

Our executive Directors confirmed, and the Safety Consultant concurs, that on the day of the Wong Chuk Hang Accident, the metal scaffolding, protective fence, base board, accesses and egresses and fibre rope type independent lifelines were provided and maintained by the main contractor and our Group was neither involved in the design or setup of nor was our Group responsible for providing or maintaining the scaffolding at the Wong Chuk Hang Site. As such, the primary responsibility of the overall safety conditions of the Wong Chuk Hang Site was

BUSINESS

borne by the main contractor. In particular, the injured worker had (i) attended the safety induction training provided by the main contractor; (ii) attended the specific training course on working at height provided by the main contractor; (iii) passed the construction site safety and health induction course test given by the main contractor; and (iv) acknowledged in writing the receipt of personal protective equipment from the main contractor. Further, the injured worker, being an employee of a subcontractor of our Group, worked under the instructions of the subcontractor and she was subject to lesser direct control by our project supervision staff as compared to our own employees. As stipulated in the subcontract between the Group and the subcontractor, the subcontractor must carry out the relevant works in accordance with all applicable safety regulations, and shall be fully responsible for supervising, monitoring and educating the employees of the subcontractor to comply with all applicable safety regulations. Further, the subcontractor shall be responsible for providing personal protective equipment for the employees of the subcontractor in accordance with all applicable safety regulations. As such, the primary responsibility in ensuring the safety compliance and conditions and implementing the safety supervision measures at the Wong Chuk Hang Site in relation to the subcontracted works was borne by the subcontractor. Notwithstanding the above, our safety supervisor had conducted regular inspections on the site, including general safety checks on access and egress, working at height, lifting appliances and lifting gear, electricity, fire prevention, health, machinery, personal protective equipment, and had made recommendations accordingly.

Having reviewed, among other things, (i) records pertaining to the Wong Chuk Hang Accident; (ii) the existing safety measures and procedures adopted by our Group as set out in details in the paragraph headed "The Safety Consultant's view on the adequacy and effectiveness of our safety management system" below in this section; (iii) records pertaining to our implementation of safety measures and procedures; (iv) on-site inspections at the Wong Chuk Hang Site; (v) independent safety audit reports; and (vi) the Wong Chuk Hang Suspension Notice, the Safety Consultant is of the view that no material deficiency in relation to our Group's safety management system was identified in the Wong Chuk Hang Accident and the existing occupational health and safety management system of our Group is adequate and effective. For further details on the basis for the Safety Consultant's view, please refer to the paragraph headed "The Safety Consultant's view on the adequacy and effectiveness of our safety management system" below in this section.

Subsequent to the date of the Wong Chuk Hang Accident and up to the Latest Practicable Date, no civil claims in relation to the Wong Chuk Hang Accident had been initiated against our Group. The main contractor had taken out employees' compensation insurance to cover the risk of injury or death sustained by workers in their course of employment under the main contractor and/or its subcontractors at different tiers. As advised by the Legal Counsel, the amount of the potential employees' compensation claim and/or common law personal injury claim to be borne by our Group, if any, shall be covered by the insurance policy maintained by the main contractor with a limit of indemnity at HK\$200 million for any one accident. The Legal Counsel further advised that there is nothing to suggest that the relevant employees' compensation insurance was not valid and not subsisting to cover the potential civil claims, if any, arising out of the Wong Chuk Hang Accident to be commenced by the injured worker or that the insurer will repudiate coverage. The Legal Counsel is of the view that the relevant employees' compensation insurance

BUSINESS

would be sufficient to cover the potential civil claims, if any, arising out of the Wong Chuk Hang Accident to be commenced by the injured worker, as the prescribed minimum insurance coverage amount under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) was set after consultations and studies by the Government and the Legislative Council had not invoked its power under the Employees' Compensation Ordinance to amend such amount as at the Latest Practicable Date.

Adequacy and effectiveness of our safety management system in relation to the Wong Chuk Hang Site

Notwithstanding the occurrence of the Wong Chuk Hang Accident, our executive Directors and the Safety Consultant are of the view that this is an isolated incident and the existing safety management system of our Group is adequate and effective based on the following factors:

- During the Track Record Period, we have engaged safety auditors for the purpose of conducting safety audits on our safety management system on a semi-annual basis in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulation. The latest safety audit conducted pursuant to the statutory requirements for the Wong Chuk Hang Site was in January 2022. Based on the safety audit report, no material deficiencies in relation to our safety management system has been identified by the safety auditors.
- For further details related to our safety management system, please refer to the paragraph headed "Our Safety Consultant's view on the adequacy and effectiveness of our safety management system" below in this section.

Impact on our operations and financial position

Our executive Directors are of the view that the Wong Chuk Hang Suspension Notice, which caused a temporary suspension of the relevant works as discussed above, would have no material impact on the progress of the relevant project given that the list of works subject to the Wong Chuk Hang Suspension Notice was limited to tile work on the external wall of the relevant towers located on the Wong Chuk Hang Site and we were allowed to carry out works at other areas of the Wong Chuk Hang Site while the Wong Chuk Hang Suspension Notice was in force, and that the suspension period was relatively short as the Wong Chuk Hang Suspension Notice was revoked around one month after its issue and the tentative expected completion date of the project is around March 2023. Our executive Directors confirmed that after the revocation of the Wong Chuk Hang Suspension Notice, our Group was able to catch up with the progress in respect of tile work on the external wall of the relevant towers located on the Wong Chuk Hang Site without incurring any additional cost.

Our executive Directors are of the view that the Wong Chuk Hang Accident and the Wong Chuk Hang Suspension Notice would not have any material adverse impact on our Group's operations and financial position. Based on the advice of the Legal Counsel, the employees' compensation insurance policy taken out by the main contractor would be sufficient to cover the

BUSINESS

potential civil claim brought against our Group under the Wong Chuk Hang Accident. As advised by the Legal Counsel, the amount of the potential employees' compensation claim and/or common law personal injury claim to be borne by our Group, if any, shall be covered by the insurance policy maintained by the main contractor with a limit of indemnity at HK\$200 million for any one accident. The Legal Counsel further advised that there is nothing to suggest that the relevant employees' compensation insurance was not valid and not subsisting to cover the potential civil claims, if any, arising out of the Wong Chuk Hang Accident to be commenced by the injured worker or that the insurer will repudiate coverage. The Legal Counsel is of the view that the relevant employees' compensation insurance would be sufficient to cover the potential civil claims, if any, arising out of the Wong Chuk Hang Accident to be commenced by the injured worker, as the prescribed minimum insurance coverage amount under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) was set after consultations and studies by the Government and the Legislative Council had not invoked its power under the Employees' Compensation Ordinance to amend such amount as at the Latest Practicable Date. Further, the relevant customer in respect of the Wong Chuk Hang Site had not informed us of any intention to terminate the relevant works contract with us or to cease inviting us to tender or awarding contracts to us in the future as a result of the Wong Chuk Hang Accident. Therefore, our executive Directors consider that the Wong Chuk Hang Accident did not result in any material impact on our ability to obtain new business opportunities from our customers.

Potential impact on the status of our registration

According to the Rules and Procedures for the Register of Subcontractors issued by the Construction Industry Council, convictions under the Factories and Industrial Undertakings Ordinance in relation to serious construction site safety incidents may call for regulatory actions. As at the Latest Practicable Date, Chan Kiu had not made any guilty plea and there was no conviction in respect of the WCH Summonses, and therefore Chan Kiu is still presumed to be innocent.

The Legal Counsel is of the view that there was no legal impediment to the renewal of the registration of Chan Kiu under the Registered Specialist Trade Contractors Scheme as at the Latest Practicable Date, taking into account the Wong Chuk Hang Suspension Notice and the WCH Summonses, and that the likelihood of the registration of Chan Kiu under the Registered Specialist Trade Contractors Scheme being subject to revocation or rejection in its renewal due to the Wong Chuk Hang Accident can be considered as remote in light of the followings:

- the injured worker, being an employee of our subcontractor, worked under the instructions of our subcontractor and hence the injured worker was subject to lesser direct control of our project management staff as compared to our own general workers;
- the alleged offences include a like offence committed by another proprietor so Chan Kiu is not directly responsible for the alleged offences;

BUSINESS

- prior to the commencement of works, the injured worker had acknowledged in writing the receipt of some personal protection equipment; and
- based on the findings of the Safety Consultant, no material deficiency in relation to our Group's safety management system was identified in the Wong Chuk Hang Accident.

Rectifications and enhanced internal control measures on subcontractors and workers

In an effort to minimise the risks of occurrence of accidents (in particular accidents involving fatality or serious injury), our Group implemented rectifications and enhanced safety measures and internal control measures in mid-2021.

For instance, the safety measures implemented by our Group included but not limited to (a) establishing improvement implementation team; (b) carrying out method statement and risk assessment for plastering operation safety; (c) adopting and implementing a permit to work system for external wall activities; (d) designating Mr. WP Chan to oversee our safety department; and (e) setting up a safety committee at the corporate level with Mr. WP Chan as its chairperson, Mr. KS Chan as its vice-chairperson and Mr. Lai Wai Hung as its member, having the function of enforcing safety policies, reviewing and assessing safety policies, cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards, accident rates and any non-compliance with applicable safety-related laws and regulations, meetings of which should be held on a monthly basis. For qualifications and experience of Mr. WP Chan, Mr. KS Chan and Mr. Lai Wai Hung, please refer to the section headed "Directors and senior management" in this document.

In addition, to avoid the malpractice of subcontractors or workers and the breach of our safety policies, procedures and management system by them, (i) our management team conducted briefings with the relevant on-site personnel to understand the causes of the accidents and safety-related non-compliances; (ii) we had issued warning letters to the relevant subcontractors and workers who had failed to follow our in-house safety rules; (iii) we had taken disciplinary actions against subcontractors and workers who were found to have repeatedly breached or be in serious breach of our in-house safety rules; (iv) we provided additional safety training to our subcontractors after the occurrence of the safety-related non-compliances; (v) we had increased the frequency of site inspection; and (vi) we had increased the frequency of staff briefings and reminders to increase the awareness of the workers (including our employees and subcontractors) on-site in relation to occupational safety and health.

Following the implementation of our enhanced safety measures and internal control to minimise the risk of occurrence of accidents, up to the Latest Practicable Date, we had not encountered further accidents involving fatality or serious injury. In addition to the abovementioned measures, we have also taken steps to (i) review and assess our safety policies on a monthly basis by our safety committee; (ii) conduct safety audits under the Factories and Industrial Undertakings (Safety Management) Regulations on our safety management system on

BUSINESS

a group level on a semi-annual basis by an external safety auditor engaged by our Group; and (iii) provide frequent reminders and briefings to employees and sub-contractors to increase the awareness to occupational safety and health and our in-house safety rules. While our Directors acknowledge that systems of internal control can only provide reasonable but not absolute assurance of prevention of site accidents, our Directors are of the view that the enhanced safety measures and internal controls implemented by our Group were effective and adequate to prevent serious site accidents and underlined the Board's commitment to keep improving our Group's safety measures and to foster a safety environment going forward.

The Safety Consultant's views that each of the Lohas Park Accident and the Wong Chuk Hang Accident was isolated incident

The Safety Consultant is of the view that each of the Lohas Park Accident and the Wong Chuk Hang Accident was an isolated incident based on the following considerations:

- In respect of Chan Kiu, eight corporate safety audits, 41 project safety audits and seven project safety reviews were conducted by safety auditors or safety review officers during the Track Record Period and up to the Latest Practicable Date. Such safety audits and reviews cover a total of 17 projects sites of Chan Kiu. In particular, six safety audits were conducted on the Lohas Park Site in May 2019, November 2019, May 2020, December 2020, June 2021 and December 2021, respectively, and three safety audits were conducted on the Wong Chuk Hang Site in January 2021, July 2021 and January 2022, respectively.
- In respect of Ying Wai, nine corporate safety audits, nine project safety audits and two project safety reviews were conducted by safety auditors or safety review officers during the Track Record Period and up to the Latest Practicable Date. Such safety audits and reviews cover a total of five project sites of Ying Wai.
- All of the aforesaid safety audits and safety reviews were conducted by safety auditors or safety review officers pursuant to the Factories and Industrial Undertakings (Safety Management) Regulation ("FIU(SM)R") (Chapter 59AF of the Laws of Hong Kong). Pursuant to the requirements of the FIU(SM)R, a safety auditor shall, among others, have successfully completed a recognised training scheme conducted by a registered scheme operator and understand the requirements under legislation in Hong Kong relating to industrial safety and health matters, whereas a safety review officer shall, among others, have received appropriate training in how to evaluate or assess the overall performance of safety management system and have a good understanding of the operation of the undertaking and a good understanding of the legal requirements relating to industrial safety and health. For further details, please refer to the paragraph headed "Regulatory overview – Laws and regulations in relation to labour, health and safety" in this document.

BUSINESS

- In view of the qualifications required for being a registered safety auditor or safety review officer, the Safety Consultant is satisfied that the aforesaid safety audits and safety reviews were conducted by competent persons with appropriate understanding of the legal requirements relating to industrial safety and health in Hong Kong.
- Further, the Safety Consultant has reviewed the safety audit and safety review reports of both Chan Kiu and Ying Wai during the aforesaid period and noted that no material deficiencies in relation to the safety management system had been identified by the safety auditors or safety review officers.
- In respect of the safety audits conducted for the Lohas Park Site and Wong Chuk Hang Site, our Group's safety management system and operational control for the sites had achieved "satisfactory to good" level. The audit reports for the two sites had been submitted to the Labour Department and no adverse feedback or comments were received from the Labour Department as at the Latest Practicable Date.
- In respect of the safety audits conducted for the Lohas Park Site and Wong Chuk Hang Site, the safety auditor conducted a thorough analysis on Chan Kiu's health and safety system with a focus on its precautionary and safety measures for works at height. In particular, the safety auditor noted that (i) the use and maintenance of personal protective equipment was satisfactory and the workers generally had been wearing personal protective equipment during inspection; and (ii) safety posters and reminders regarding usage of personal protective equipment were displayed at the sites.
- The projects safety audits and safety reviews conducted cover 18 of our 19 top projects undertaken during the Track Record Period (i.e. with accumulated revenue contribution to us of HK\$40.0 million or above during the Track Record Period). Having considered the number and size of the projects that were inspected, the Safety Consultant considers that the aforesaid safety audits and safety reviews provide a representative sample base to assess the adequacy and effectiveness of our Group's overall safety management system.
- The Safety Consultant conducted reviews on our safety management systems in the months of September, October and November 2020, as well as the months of January, May and June 2021. The review activities carried out by the Safety Consultant include, among others, (i) interviews with our executive Directors and safety supervision staff; (ii) verification of documents relating to our workplace accidents; (iii) random site visits and on-site interviews at our project sites, which include but are not limited to the Lohas Park Site. The Safety Consultant concluded that our safety management system has achieved an "excellent" level and no major or material safety deficiency is identified in our safety management system.

BUSINESS

Our executive Directors and the Safety Consultant consider that the adequacy and effectiveness of our safety management system shall be assessed objectively with a holistic approach in the aspects of corporate level and projects levels (with a representative sample base). Based on the aforesaid and those factors sets out in the paragraph headed “The Safety Consultant’s view on the adequacy and effectiveness of our safety management system” below in this paragraph, the Safety Consultant concluded that the Lohas Park Accident and Wong Chuk Hang Accident do not negatively reflect on the adequacy and effectiveness of our occupational health and safety management system as a whole. Despite the safety policies and measures taken by us to mitigate the risks of accidents or injuries to workers and notwithstanding that safety audits and safety reviews had been conducted regularly and that the Safety Consultant had conducted reviews on our safety management systems, the risks of workplace accidents at construction sites cannot be completely eliminated. Such risks are inherent due to the nature of works in the construction industry. Wet trades works are labour intensive in nature and involve various types of works such as, plastering, tile laying, brick laying, floor screeding and marble works. Inevitably, wet trades works subcontractors have to rely on site workers to carry out the relevant manual works. Our executive Directors and the Safety Consultant are of the view that while we have implemented an adequate and effective safety management system, we cannot fully control and monitor each worker’s behaviour or practice when he/she carries out site works. Hence, it is not feasible for us to completely eliminate the possibility of malpractice or inadvertent oversight on the part of individual workers. Further, based on latest available information, our Group recorded accident rate of approximately 14.8, 15.8, 10.9 and 22.8 for each of the four years ended 31 December 2021 which were lower than the construction industry average in Hong Kong for the corresponding year (the industrial accident rate in the construction industry in Hong Kong for the year ended 31 December 2021 had not been published at the Latest Practicable Date). In particular, based on the statistics published by the Labour Department, accidents that involved falling from height accounted for approximately 10.6% of the total number of reported accidents in the construction industry during the three years ended 31 March 2021 *(Note)*. Meanwhile, the number of our accidents that involved falling from heights accounted for approximately 3.6% of our total number of accidents in the corresponding period. As such, the frequency of our accidents involving falling from height was lower as compared to the industry average in Hong Kong.

Note: Statistics for the year ended 31 March 2022 has not been published by the Labour Department as at the Latest Practicable Date.

BUSINESS

The Sponsor's views

The Sponsor is of the view that the accidents, safety-related non-compliances and civil and criminal litigations of our Group as disclosed in the paragraphs headed "Occupational health and work safety", "Legal compliance" and "Litigations and claims" in this section do not in totality negatively impugn on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and the suitability of [REDACTED] of our Company under Rule 8.04 of the Listing Rules based on the following factors:

- the Safety Consultant is of the view that the workplace accidents involving our employees and/or our subcontractors' employees during the Track Record Period and up to the Latest Practicable Date were primarily attributable to the workers failing to pay attention to the site environment or the malpractice of the workers in failing to comply with the applicable safety policies, procedures and regulations of our Group;
- the Safety Consultant is of the view that the workplace accidents involving our employees and/or our subcontractors' employees during the Track Record Period and up to the Latest Practicable Date did not involve any intentional misconduct, fraud or dishonesty on the part of our Group or our Directors or any material deficiencies in our Group's safety management system;
- the Safety Consultant is of the view that the existing occupational health and safety management system of our Group is adequate and effective;
- upon identifying the safety-related non-compliance incidents, we have reviewed our procedure for accident reporting and handling of work injuries, and have taken steps to enhance our internal control and safety measures to prevent recurrence of similar incidents. Further, our Group has taken rectifications and enhanced internal control measures on subcontractors and workers to avoid their malpractice and the breach of our safety policies, procedures and management system by them;
- our executive Directors are committed to enhancing our occupational health and work safety which can be demonstrated by: (i) the designation of Mr. WP Chan in May 2021 to oversee our safety department which is primarily responsible for the implementation of our safety management system at project sites; and (ii) our Group has set up a safety committee at the corporate level in May 2021 with Mr. WP Chan as its chairperson, Mr. KS Chan as its vice-chairperson and Mr. Lai Wai Hung as its member, having the function of enforcing safety policies, reviewing and assessing safety policies, cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards, accident rates and any non-compliance with applicable safety-related laws and regulations, meeting of which is to be held on a monthly basis. For qualifications and experience of Mr. WP Chan, Mr. KS Chan and Mr. Lai Wai Hung, please refer to the section headed "Directors and senior management" in this document;

BUSINESS

- systems of internal control only provide reasonable assurance of prevention of non-compliance incidents and/or accidents, and it is not possible to eliminate the possibility of the occurrence of similar safety-related non-compliance and/or accidents, which are common in the construction industry;
- the accident rate of our Group for each of the three years ended 31 December 2020 and the fatality rate of our Group for the year ended 31 December 2018 as disclosed in the paragraph headed "Occupational health and work safety – Analysis of accident rates" were lower than the corresponding construction industry average in Hong Kong;
- the Safety Consultant has assessed and confirmed that rectification actions have been implemented to avoid recurrence of the safety-related non-compliance incidents;
- the Legal Counsel is of the view that there is no basis to suggest that the occurrence of the accidents, safety-related non-compliances and the civil and criminal litigations involved any dishonesty so there is nothing to impugn the characters of our Directors. Further, the actual and potential civil litigations are mainly due to industrial accidents so there is no basis to suggest that there was any intentional breach of the law affecting the law-compliant manner of our Group;
- the incidents leading to the safety-related non-compliances were because the relevant subcontractors of our Group failed to follow our applicable safety policies, procedures and regulations;
- the Legal Counsel is of the view that the most common reason for an accident to happen is human error or inadvertency on the part of the persons directly in control of the workplaces so there is no direct basis to suggest any lack of competence and capacity on the part of our Directors;
- the Legal Counsel is of the view that the safety-related non-compliance incidents cast no light on the management and operations of our Group and the non-compliance incidents were not material nor systemic in nature;
- the Legal Counsel is of the view that our Group does not have a large number of safety-related non-compliances. During the Track Record Period and up to the Latest Practicable Date, there were just four safety-related non-compliances happened on three different dates. In addition, the intervals between those three single incidents or events were not short. Further, all safety-related non-compliances only resulted in monetary fines, and our executive Directors consider the fine amounts are insignificant to our business. There was no imprisonment sentence imposed on our Directors or the responsible personnel of our Group in respect of the non-compliances nor was any of them prosecuted as a result of the non-compliances. The Legal Counsel is of the view that the safety-related non-compliances did not and will not adversely affect the renewal of the registrations of our Group under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council; and

BUSINESS

- the Legal Counsel takes the view that we would have a valid defence to the ongoing criminal litigations and have a reasonable chance of acquittal subject to the evidence to be adduced in court and testimony of witnesses during the trial hearings.

Further, the Sponsor is of the view that the existing occupational health and safety management system of our Group is adequate and effective to ensure ongoing and future compliance with relevant safety regulations, having considered that:

- the Safety Consultant is of the view that the existing occupational health and safety management system of our Group is adequate and effective;
- there had been no new fatal accident since the occurrence of the Lohas Park Accident in December 2019 and the engagement of the Safety Consultant by our Group up to the Latest Practicable Date;
- the historical accident rates of our Group were lower than the corresponding construction industry average in Hong Kong; and
- our Directors confirmed that our Group will continue to allocate adequate resources and use its best endeavours to uphold and improve its safety management system on an on-going basis in order to reduce the inherent risks relating to safety issues to the lowest possible level, notwithstanding that systems of internal control only provide reasonable assurance of prevention of non-compliance incidents and/or accidents, and that it is not possible to eliminate the possibility of the occurrence of similar safety-related non-compliance and/or accidents, which are common in the construction industry.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and penalties which may arise as a result of any outstanding and potential litigations (including criminal litigations), claims of our Group on or before the date on which the [REDACTED] becomes unconditional, including the potential criminal liabilities and penalties and all legal costs and expenses which may arise out of the Lohas Park Accident and the Wong Chuk Hang Accident. Further details on the Deed of Indemnity are set out in the paragraph headed "E. Other information – 1. Tax and other indemnities" in Appendix IV to this document.

BUSINESS

Analysis of accident rates

The following table sets out a comparison of the industrial accident rate per 1,000 workers and the industrial fatality rate per 1,000 workers in the construction industry in Hong Kong between our Group and the industry average during the Track Record Period:

	Industry average in Hong Kong <i>(Note 1)</i>	Our Group <i>(Notes 2 and 3)</i>
From 1 January to 31 December 2018		
Accident rate per 1,000 workers	31.7	14.8
Fatality rate per 1,000 workers	0.125	Nil
From 1 January to 31 December 2019		
Accident rate per 1,000 workers	29.0	15.8
Fatality rate per 1,000 workers	0.157	1.3
From 1 January to 31 December 2020		
Accident rate per 1,000 workers	26.1	10.9
Fatality rate per 1,000 workers	0.185	Nil
From 1 January to 31 December 2021		
Accident rate per 1,000 workers	N/A ^(Note 4)	22.8
Fatality rate per 1,000 workers	N/A ^(Note 4)	Nil
From 1 January 2022 to 31 March 2022		
Accident rate per 1,000 workers	N/A ^(Note 4)	5.1
Fatality rate per 1,000 workers	N/A ^(Note 4)	Nil

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No.21 (August 2021) published by Occupational Safety and Health Branch of the Labour Department.
2. Our Group’s accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers in our Group’s projects during the year/period.
3. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.
4. The relevant data had not been published as at the Latest Practicable Date.

BUSINESS

The following table sets forth our Group's lost time injuries frequency rate ("LTIFR") during the Track Record Period:

	LTIFR <i>(Note)</i>
For the year ended 31 March 2019	6.8
For the year ended 31 March 2020	4.0
For the year ended 31 March 2021	4.8
For the year ended 31 March 2022	9.4

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries of our Group that occurred during the relevant year by 1,000,000 divided by the number of hours worked by site workers over the same year. It is assumed that the working hour of each worker is 9 hours per day.
2. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

The Safety Consultant's view on the adequacy and effectiveness of our safety management system

Based on the safety reviews on our existing occupational health and safety management system, the Safety Consultant is of the view that the existing occupational health and safety management system of our Group is adequate and effective, having considered:

- (i) the workplace accidents involving our employees and/or our subcontractors' employees during the Track Record Period and up to the Latest Practicable Date were primarily attributable to the workers failing to pay attention to the site environment or the malpractice of the workers in failing to comply with the applicable safety policies, procedures and regulations of our Group;
- (ii) the workplace accidents involving our employees and/or our subcontractors' employees during the Track Record Period and up to the Latest Practicable Date did not involve any intentional misconduct, fraud or dishonesty on the part of our Group or our executive Directors or any material deficiencies in our Group's safety management system;
- (iii) site inspections are carried out by our safety officer regularly to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations and the results are satisfactory;
- (iv) we have conducted safety briefings to our employees and our subcontractors' employees before their commencement of works;

BUSINESS

- (v) regular safety meetings are held with our employees and our subcontractors’ employees;
- (vi) safety trainings are provided to our employees and our subcontractors’ employees;
- (vii) risk assessments are regularly conducted by our safety officer;
- (viii) safety audits under the Factories and Industrial Undertakings (Safety Management) Regulations had been conducted on our safety management system on a group level on a semi-annual basis by an external safety auditor engaged by our Group and the external safety auditor was satisfied with the findings on our safety management system;
- (ix) based on the scoring system of the mandatory safety management audit rating tool and as assessed by the Safety Consultant, our Group scored 565 marks out of a possible 675 marks for the ten safety audit requirements as set out in Parts 1 and 2 of Schedule 4 of the Factories and Industrial Undertakings (Safety Management) Regulation (Chapter 59F of the Laws of Hong Kong), equivalent to an overall score of 83.7%. The Safety Consultant concludes that our safety management system has achieved an “excellent” level and no major or material safety deficiency is identified in our current safety management system;
- (x) our Group recorded accident rate of approximately 14.8, 15.8, 10.9 and 22.8 for each of the four years ended 31 December 2021 which were lower than the construction industry average in Hong Kong for the corresponding year (the industrial accident rate in the construction industry in Hong Kong for the year ended 31 December 2021 had not been published as at the Latest Practicable Date);
- (xi) our Group had adopted various safety measures including but not limited to (a) establishing improvement implementation team; (b) carrying out method statement and risk assessment for plastering operation safety; (c) adopting and implementing a permit to work system for external wall activities; (d) designating Mr. WP Chan to oversee our safety department; and (e) setting up a safety committee at the corporate level with Mr. WP Chan as its chairperson, Mr. KS Chan as its vice-chairperson and Mr. Lai Wai Hung as its member, having the function of enforcing safety policies, reviewing and assessing safety policies, cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards, accident rates and any non-compliance with applicable safety-related laws and regulations, meetings of which should be held on a monthly basis. For qualifications and experience of Mr. WP Chan, Mr. KS Chan and Mr. Lai Wai Hung, please refer to the section headed “Directors and senior management” in this document; and
- (xii) systems of internal control only provide reasonable assurance of prevention of non-compliance incidents and/or accidents, it is not possible to eliminate the possibility of the occurrence of similar safety-related non-compliance and/or accidents, which are common in the construction industry.

BUSINESS

RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activity.

PROPERTY

As at the Latest Practicable Date, we did not own any property and we leased the following property in Hong Kong for our operations, details of which are set out as follows:

Address	Landlord	Usage	Key terms of tenancy
Unit 909, 9th Floor, Tower 1, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon, Hong Kong	An independent third party	For general office use	Monthly rental of HK\$44,770 with tenancy period from 4 December 2021 to 3 December 2023

As at 31 March 2022, our Group had no single property with a carrying amount of 15% or more of our Group’s total assets. On this basis, our Group is not required by Rule 5.01A of the Listing Rules to include any valuation report in this document. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance in respect of the requirements for a valuation report with respect to interests in land or buildings.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, our Group was the registered owner of a domain name and had registered a trademark in Hong Kong. For further information, please refer to the paragraph headed “B. Further information about the business of our Group – 2. Intellectual property rights” in Appendix IV to this document.

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

BUSINESS

LEGAL COMPLIANCE

Save as disclosed below, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident of our Group which is material or systemic in nature.

Non-compliance with the Construction Sites (Safety) Regulations

During the Track Record Period and up to the Latest Practicable Date, our Group was convicted of five summonses in respect of non-compliance with the Construction Sites (Safety) Regulations. A summary of the aforesaid summonses is set out below:

No.	Date of incident	Offences	Relevant laws and regulations	Consequences
1.	7 May 2018	Failing to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from a height of two metres or more.	Regulations 38B(1A), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations	Ying Wai was fined HK\$7,000 which was fully settled.
2.	7 May 2018	Failing to ensure that, so far as was reasonably practicable, suitable and adequate safe access to and egress from a place of work where the construction work was being carried out was provided and properly maintained.	Regulations 38AA(2), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations	Ying Wai was fined HK\$10,000 which was fully settled.
3.	8 April 2019	Failing to ensure that a workman used the suitable goggles which were provided for the protection of the workman.	Regulations 43(b), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations	Chan Kiu was fined HK\$5,000 which was fully settled.

BUSINESS

No.	Date of incident	Offences	Relevant laws and regulations	Consequences
4.	8 July 2020	Failing to take all reasonable steps to ensure that no workman employed to carry out the construction work remained on the site unless the workman was wearing a suitable safety helmet.	Regulations 48(1A)(b), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations	Ying Wai was fined HK\$2,500 which was fully settled.
5.	17 May 2021	Failing to take all reasonable steps to ensure that no workman employed to carry out the construction work remained on the site unless the workmen were wearing suitable safety helmets.	Regulations 48(1A)(b), 68(1)(a) and 68(2)(b) of the Construction Sites (Safety) Regulations	Chan Kiu was fined HK\$3,000 which was fully settled.

All the incidents leading to the summonses above were related to the employees of our subcontractors, and arose because the relevant subcontractors failed to properly ensure their workers to strictly follow our applicable safety policies, procedures and regulations. For details of our occupational health and safety policies, please refer to the paragraph headed "Occupational health and work safety" in this section. The offences under each of the non-compliance incidents was of a different nature in that each of the offences was related to a different aspect of safety precaution steps required to be taken. Based on the aforesaid and as advised by the Legal Counsel, our Directors are of the view, and the Sponsor concurs, that these summonses cast no light on the management and operations of our Group and the non-compliance incidents were not material nor systemic in nature, based on the following factors:

- (a) the fines were of relatively small amounts and there is no basis to suggest that the non-compliance incidents have/had any material financial and/or operational impact on our Group;
- (b) none of the non-compliance incidents involved workplace accidents or injuries to our workers or our subcontractors' workers;

BUSINESS

- (c) during the Track Record Period and up to the Latest Practicable Date, there were only five safety-related non-compliances which happened on four different sites; and
- (d) the non-compliance incidents do not reflect negatively the ability or tendency to operate in a compliant manner of our Group and our Directors.

Non-compliance with the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

According to section 15(1A) of the Employees' Compensation Ordinance, employers shall report work injuries of their employees to the Commissioner of Labour not later than 14 days after the accident.

During the Track Record Period and up to the Latest Practicable Date, there were five instances where we failed to report work injuries of our employees within the prescribed time limit under the Employees' Compensation Ordinance.

Date of accident	Nature of injuries according to the Form 2	Extent of delay in reporting
17 May 2018	Neck fracture as the worker was struck by a falling window frame	54 days
2 August 2018	Bruise on right leg as a temporary fence fell onto and hit the worker when she was moving it	53 days
2 November 2018	Bruise on left forearm as one leg of a hop-up platform fell onto and hit the worker when he was folding the platform	6 days
21 February 2019	Bruise on left wrist as the worker slipped and fell	4 days
5 July 2019	Injured by having a finger pinched when the worker was closing the door	220 days

As confirmed by our Directors, the non-compliance incidents were mainly because (a) it took time to communicate with the relevant main contractor to prepare the report, which involved preliminary assessment of the reason(s) for the accident, collecting information for the report such as the exact time of the accident, the work performed by the injured worker, the name of the insurer and the insurance policy number, etc., and submitting the report to the main contractor for review before filing the same; and (b) inadvertent oversight.

Under section 15(6) of the Employees' Compensation Ordinance, the maximum penalty for an employer who without reasonable excuse fails to give notice is a fine at HK\$50,000 for each

BUSINESS

offence. As advised by the Legal Counsel, the non-compliance incidents were not material in nature taking into consideration the followings:

- (a) we have subsequently rectified the non-compliance by completing the requisite filings with the Labour Department and the employees' rights under the Employees' Compensation Ordinance were not prejudiced;
- (b) as at the Latest Practicable Date, there had not been any prosecution initiated against our Group or our officers, nor had any of them been subject to any penalty or enforcement actions;
- (c) the late filings have been time barred from prosecution; and
- (d) the late filings cannot be a negative reflection of our ability or tendency to operate in a compliant manner since the reason for the delays may be oversight, inadvertency or human error.

Enhanced internal control measures to prevent recurrence of non-compliance incidents

Upon identifying the abovementioned non-compliance incidents, we have reviewed our procedures for accident reporting and handling of work injuries, and have taken steps to enhance our internal control and safety measures to prevent recurrence of similar incidents, including the following:

- (a) enhancing our site accident reporting procedures to thoroughly set out the procedures and workflow to report an accident in work sites and assigning the responsible contact persons for each work site since mid-2020 such that the senior management and project management team can be timely reported of site accidents for handling of work injuries and accident reporting to the Labour Department. Where there is prolonged communication in the reporting of the site accident, our executive Directors shall be notified and shall promptly follow up with the relevant staff and/or main contractor to ensure timely reporting of the site accident to the Labour Department. In addition, we implemented a checklist for follow-up actions for accidents in mid-2020, and such checklist includes the requirement to report work injuries to the Labour Department within 14 days after the accident and is reviewed by the project manager to ensure adherence to our Group's enhanced internal control measures;
- (b) establishing and implementing a site accident reporting channel by setting up an instant message application for accident reporting which include all our subcontractors since mid-2020;
- (c) designating Mr. WP Chan to oversee our safety department which is primarily responsible for implementing the safety management system at our project sites in May 2021;

BUSINESS

- (d) setting up a safety committee in May 2021 at the corporate level with Mr. WP Chan as its chairperson, Mr. KS Chan as its vice-chairperson and Mr. Lai Wai Hung as its member, having the function of enforcing safety policies, reviewing and assessing safety policies, cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards, accident rates and any non-compliance with applicable safety-related laws and regulations, meetings of which should be held on a monthly basis. For qualifications and experience of Mr. WP Chan, Mr. KS Chan and Mr. Lai Wai Hung, please refer to the section headed “Directors and senior management” in this document;
- (e) engaging a qualified external safety consultant to provide a specific training session to our Directors, members of our senior management and safety department;
- (f) engaging a qualified external safety consultant to conduct regular assessments and provide recommendations to our safety committee;
- (g) keep enhancing our existing training programme and providing training sessions to all employees and our subcontractors’ representatives with respect to accident reporting procedures, accident statistics and analysis to enhance their safety awareness;
- (h) appointed a qualified safety officer on 31 May 2021 to specifically oversee the investigation of our Group’s accidents;
- (i) employed an additional full-time safety officer who is registered under the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations on 3 February 2021 and a full-time safety supervisor who holds a Certificate in Safety & Health for Supervisor (Construction) on 19 July 2021 specifically for conducting site inspection. The newly employed safety officer and safety supervisor are primarily responsible for ensuring all site workers deployed by our Group and our subcontractors strictly follow our safety guidelines and instructions in order to reduce the likelihood of recurrence of similar accidents and non-compliance incidents in the future;
- (j) established our own safety promotion programme and participated in safety promotion programme jointly with main contractor in order to recognise and acknowledge subcontractors, supervisor and worker with good safety performance record;
- (k) inviting our main contractors to attend our regular meetings with our subcontractors to evaluate the cases of injuries, ill health, losses such as damage to property, incidents with the potential to cause injuries, ill health or losses, hazards and weaknesses in or non-compliance with performance standards and determine if any additional safety measures are necessary; and

BUSINESS

- (1) increasing the frequency of site inspections ranging from daily to weekly basis, depending on the scale and stages of the projects as well as the nature of site works involved. During the site inspection, our safety supervisor will conduct general safety checks on access and egress, working at height, lifting appliances and lifting gear, electricity, fire prevention, health, machinery, personal protective equipment, and will make recommendations accordingly.

Following the implementation of our enhanced internal control measures to address safety-related non-compliance in mid-2021 and non-compliance for failing to report work injuries within the prescribed time limit in mid-2020, up to the Latest Practicable Date, our Group had not encountered further incidents leading to safety-related non-compliances and non-compliances for failing to report work injuries within the prescribed time limit. In addition to the abovementioned measures, we have also taken steps to (i) review and assess our safety policies on a monthly basis by our safety committee; (ii) conduct safety audits under the Factories and Industrial Undertakings (Safety Management) Regulations on our safety management system on a group level on a semi-annual basis by an external safety auditor engaged by our Group; and (iii) provide frequent reminders and briefings to employees and sub-contractors to increase the awareness to occupational safety and health and our in-house safety rules. While our Directors acknowledge that systems of internal control can only provide reasonable but not absolute assurance of prevention of non-compliance incidents, our Directors are of the view that the enhanced internal controls implemented by our Group were effective and adequate to address past non-compliance incidents and underlined the Board's commitment to keep improving our Group's safety measures and to foster an environment for being fully compliant going forward.

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of [REDACTED] of our Company under Rule 8.04 of the Listing Rules having considered the fact that (i) the Safety Consultant has assessed and confirmed that those rectification actions have been implemented as stated above to avoid recurrence of the non-compliance incidents; and (ii) the above non-compliance incidents were neither intentional nor wilful, did not involve any fraudulent act or dishonesty on the part of our Directors and did not raise any question as to the integrity of our Directors.

The Sponsor, after considering the above and having reviewed the rectification actions implemented by our Group, concurs with the view of our Directors that (i) the abovementioned non-compliance incidents would not affect the suitability of [REDACTED] of our Company under Rule 8.04 of the Listing Rules; and (ii) the non-compliance incidents would not give rise to the concerns on the ability of our Directors to oversee our Company's operation and the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

BUSINESS

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group had been involved in a number of claims, litigations and potential claims against our Group in the ordinary and usual course of our business. Set out below are the details of (i) the ongoing civil litigations against our Group as at the Latest Practicable Date; (ii) the ongoing criminal litigations against our Group as at the Latest Practicable Date; (iii) the litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date; and (iv) the potential claims against our Group as at the Latest Practicable Date.

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

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

No.	Nature of the claim	Particulars of the claim	Status	Covered by insurance
1.	Labour Tribunal claim	It was alleged by an employee of our Group that our Group terminated her employment contract without sufficient notice or payment in lieu of notice, dismissed her without any valid reason, failed to grant her statutory holidays, grant annual leave and pay wages, and wrongfully deducted her wages.	By an order of the Labour Tribunal dated 12 December 2018, the case is adjourned indefinitely and both parties may apply to resume the hearing.	No ^(Note 1)
2.	Personal injury claim	It was alleged that on or around 25 October 2017, the plaintiff, an employee of our Group, sprained his back in the course of employment when he was moving bags of construction materials.	There is going to be a checklist review hearing on 21 July 2022.	Yes

BUSINESS

No.	Nature of the claim	Particulars of the claim	Status	Covered by insurance
3.	Personal injury claim	It was alleged that on 2 August 2018, the plaintiff, an employee of our Group, suffered from right sciatica, lower back pain and right foot pain in the course of employment. While the applicant was removing a pile of debris on the balcony, sparks caused by welding work on the balcony of an upper floor fell and she twisted her waist to the right to throw the items on her hand. Some of these items rebounded and hit the applicant's right foot and her waist and lower back were also sprained and injured.	There is going to be a checklist review hearing on 24 October 2022.	No ^(Note 2)
4.	Personal injury claim	It was alleged that on or around 2 November 2018, the plaintiff, an employee of our Group, sustained injury to his left arm and left elbow in the course of employment as one leg of a hop-up platform fell onto and hit him when he was folding the platform.	There is going to be a checklist review hearing on 14 December 2022.	Yes
5.	Employees' compensation claim	It was alleged that on 10 November 2018, the applicant, an employee of a subcontractor of our Group, sustained injury to his right thigh in the course of employment as construction materials fell when he was moving them.	The case is still ongoing and is defended by Chan Kiu's insurer.	Yes
6.	Personal injury claim	It was alleged that on or around 30 January 2019, the plaintiff, an employee of a subcontractor of our Group, sustained injury to her neck, shoulder and back in the course of employment as a pair of forceps or a similar tool fell from above and landed on the back of her neck when she was shoveling the sand.	There is going to be a checklist review hearing on 10 January 2023.	Yes

BUSINESS

No.	Nature of the claim	Particulars of the claim	Status	Covered by insurance
7.	Personal injury claim	It was alleged that on 21 February 2019, the plaintiff, an employee of our Group, sustained injury to his left wrist in the course of employment as he slipped and fell.	There is going to be a checklist review hearing on 16 August 2022.	Yes
8.	Employees' compensation claim	It was alleged that on 22 July 2019, the applicant, an employee of a subcontractor of our Group, sustained injury to his left shoulder, left low chest and left hand in the course of employment as he stepped on an iron bar placed on the floor and fell down.	The case is still ongoing and is defended by Chan Kiu's insurer.	Yes
9.	Employees' compensation claim	It was alleged that on 14 October 2020, the applicant, an employee of our Group, sustained injury to his left hand in the course of employment as the applicant's left hand was hit and pressed by a trolley and a pile of falling sand bricks when he was pulling the trolley out of a material hoist.	As at the Latest Practicable Date, the first hearing was scheduled to take place on 11 November 2022.	Yes

Notes:

1. The claimed amount is approximately HK\$12,000, together with terminal payment and an award for compensation under section 32P of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) which are to be assessed. Our executive Directors confirmed that the employees' compensation insurance, third party liability insurance and contractor's all risks insurance taken out by the main contractors and the employees' compensation insurance and third-party liability insurance taken out by us do not cover Labour Tribunal claims.
2. Our Group entered into an agreement with the relevant main contractor in respect of the respective liabilities for, if any, and contributions towards the employees' compensation claim and the common law claim arising from the same accident (collectively, the “**Claims**”). In this regard, we had made a provision of approximately HK\$0.6 million in respect of the Claims during FY2019/20. During FY2021/22, the employees' compensation claim in respect of this case was settled. Please refer to the paragraph headed “Litigation against our Group settled during the Track Record Period and up to the Latest Practicable Date” below in this section for further details.

As advised by the Legal Counsel, the aforesaid claims (except for claim number 1 and claim number 3 as disclosed in the notes above) were covered by insurance policies taken out by the relevant main contractors. As such, our Directors consider that the aforesaid claims will not have any material adverse impact on our operation and financial performance.

BUSINESS

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

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

Nature of the charges	Relevant laws and regulations	Status	Potential legal consequences and maximum penalties
<i>Summonses issued to Chan Kiu</i>			
(i) Failing to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from a height of two metres or more.	Regulations 38B(1A), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations	As at the Latest Practicable Date, the mention hearing for summonses (i) to (iv) was scheduled to take place on 25 July 2022	<p>Summonses (i) to (iv) were in respect of the Wong Chuk Hang Accident, the details of which were set out in the paragraph headed “Occupational health and work safety – Wong Chuk Hang Suspension Notice in May 2021” in this section.</p> <p>According to the Construction Sites (Safety) Regulations, the maximum penalty against our Group is a fine of HK\$200,000 for each of (i) and (ii).</p> <p>According to the Factories and Industrial Undertakings Ordinance, the maximum penalty against our Group is a fine of HK\$500,000 for each of (iii) and (iv).</p> <p>The total maximum penalty against our Group for the WCH Summonses (i.e. (i) to (iv)) is an aggregate fine of HK\$1,400,000. The Legal Counsel is of the view that, in the event Chan Kiu is convicted in the WCH Summonses, it is remote that Chan Kiu would be subject to the total maximum penalty having considered that: (a) in respect of (i) and (ii), the worker was not permanently injured as a result of the alleged offences; (b) in respect of (iii) and (iv), the basis of prosecution is that Chan Kiu is guilty of a like offence committed by another proprietor, being Chan Kiu’s subcontractor and the direct employer of the injured worker, so Chan Kiu is not directly responsible for the alleged offences; and (c) the alleged offences in the WCH Summonses are not the worst type of the offences warranting maximum penalties. As advised by the Legal Counsel, with reference to precedent cases, in the event that Chan Kiu is convicted in the WCH Summonses, the estimated amount of fines for the WCH Summonses is approximately HK\$347,000.</p>
(ii) Failing to ensure that, so far as was reasonably practicable, suitable and adequate safe access to and egress from a place of work where the construction work was being carried out was provided and properly maintained.	Regulations 38AA(2), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations		
(iii) Failing to provide and maintain a system of work that were, so far as was reasonably practicable, safe and without risks to health of person employed at the industrial undertaking.	Section 6A(1), 6A(2)(a), 6A(3) and 13(1) of the Factories and Industrial Undertakings Ordinance		

BUSINESS

Nature of the charges	Relevant laws and regulations	Status	Potential legal consequences and maximum penalties
<p>(iv) Failing to provide such information, instruction and training as was necessary to ensure, so far as was reasonably practicable, the health and safety at work of the person employed at the industrial undertaking.</p>	<p>Section 6A(1), 6A(2)(c), 6A(3) and 13(1) of the Factories and Industrial Undertakings Ordinance</p>	<p></p>	<p>The Legal Counsel has further advised that Chan Kiu can only be sentenced to a fine in the event of conviction as it is a limited company, and that none of our Directors will be exposed to any penalty including imprisonment as they are not named as defendants in the WCH Summonses.</p>
<p>(v) Failing to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from a height of two metres or more.</p>	<p>Regulations 38B(1A), 68(1)(a) and 68(2)(g) of the Construction Sites (Safety) Regulations</p>	<p>As at the Latest Practicable Date, the mention hearing is scheduled to take place on 21 July 2022.</p>	<p>According to the Construction Sites (Safety) Regulations, the maximum penalty against our Group is a fine of HK\$200,000 for (v).</p> <p>As advised by the Legal Counsel, with reference to the statistics published by the Labour Department, in the event that Chan Kiu is convicted in (v), the estimated amount of fines for (v) is approximately HK\$22,000. The Legal Counsel has further advised that Chan Kiu can only be sentenced to a fine in the event of conviction as it is a limited company, and that none of our Directors will be exposed to any penalty including imprisonment as they are not named as defendants in (v).</p>

As of the Latest Practicable Date, Chan Kiu had not made any guilty plea and there was no conviction in respect of the five alleged offences, and therefore Chan Kiu is still presumed to be innocent.

BUSINESS

Litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date

The following table sets forth details of the litigations against our Group settled during the Track Record Period and up to the Latest Practicable Date:

No.	Nature of the claim	Particulars of the claim	Covered by insurance
1.	Labour Tribunal claim	It was alleged by an employee of a subcontractor of our Group that our Group failed to grant her statutory holidays.	No ^(Notes 1 and 4)
2.	Labour Tribunal claim	It was alleged by an employee of our Group that our Group terminated his employment contract without sufficient notice or payment in lieu of notice, and failed to grant him statutory holidays and annual leave.	No ^(Notes 2 and 4)
3.	Labour Tribunal claim	It was alleged by an employee of our Group that our Group terminated his employment contract without sufficient notice or payment in lieu of notice.	No ^(Notes 3 and 4)
4.	Personal injury claim	It was alleged that on 13 February 2014, the plaintiff, an employee of our Group, sustained injury to his head and knee in the course of employment as he lost balance and fell into a trench when tiling a wall.	Yes
5.	Personal injury claim	It was alleged that on 4 August 2014, the plaintiff, an employee of our Group, sustained injury to his head and neck in the course of employment as an I-beam which was being installed at height suddenly dropped down and hit him.	Yes
6.	Employees' compensation claim	It was alleged that on 23 May 2016, the applicant, an employee of a subcontractor of our Group, sprained his back in the course of employment as he was moving bags of cement.	Yes

BUSINESS

No.	Nature of the claim	Particulars of the claim	Covered by insurance
7.	Employees' compensation claim	It was alleged that on 14 February 2017, the applicant/plaintiff, an employee of our Group, sustained left back contusion injury in the course of employment as a few metal pipes fell down and hit him.	Yes
8.	Personal injury claim		
9.	Employees' compensation claim	It was alleged that on 25 April 2017, the applicant, an employee of our Group, sustained injury to her right hand in the course of employment as her hand was hurt by an electric drill machine.	Yes
10.	Employees' compensation claim	It was alleged that on 11 July 2017, the applicant/plaintiff, an employee of our Group, sustained injury in the course of employment as she was tripped by adhesive tape and sundries and fell on the fence of the staircase when moving a pack of shotcrete.	Yes
11.	Personal injury claim		
12.	Employees' compensation claim	It was alleged that on or around 25 October 2017, the applicant, an employee of our Group, sprained his back in the course of employment when he was moving bags of construction materials.	Yes
13.	Employees' compensation claim	It was alleged that on 28 October 2017, the applicant/plaintiff, an employee of our Group, sustained injury to his right ring finger and little finger in the course of employment as a stone tile that was vertically standing fell and hit him when he was moving stone tiles.	Yes
14.	Personal injury claim		
15.	Employees' compensation claim	It was alleged that on 2 August 2018, the applicant, an employee of our Group, suffered from right sciatica, lower back pain and right foot pain in the course of employment as she was removing a pile of debris on the balcony, sparks caused by welding work on the balcony of an upper floor fell and she twisted her waist to the right to throw the items on her hand. Some of these items rebounded and hit the applicant's right foot and her waist and lower back were also sprained and injured.	No ^(Note 5)

BUSINESS

No.	Nature of the claim	Particulars of the claim	Covered by insurance
16.	Employees' compensation claim	It was alleged that on or around 2 November 2018, the applicant, an employee of our Group, sustained injury to his left arm and left elbow in the course of employment as one leg of a hop-up platform fell onto and hit him when he was folding the platform.	Yes
17.	Employees' compensation claim	It was alleged that on 16 November 2018, the applicant/plaintiff, an employee of a subcontractor of our Group, sustained injury to his left ring finger in the course of employment as construction materials fell suddenly when he was moving them.	Yes
18.	Personal injury claim		
19.	Employees' compensation claim	It was alleged that on 30 January 2019, the applicant, an employee of a subcontractor of our Group, sustained injury to her neck, shoulder and back in the course of employment as a forceps or a similar tool fell down and hit her when she was using an iron spade to shove sand.	Yes
20.	Employees' compensation claim	It was alleged that on 21 February 2019, the applicant, an employee of our Group, sustained injury to his left wrist in the course of employment as he slipped and fell.	Yes
21.	Employees' compensation claim	It was alleged that on 1 June 2019, the applicant/plaintiff, an employee of a subcontractor of our Group, sustained injury to the left side of his face and left hand in the course of employment as a piece of plywood fell from above him and hit him when he was carrying out plastering works.	Yes
22.	Personal injury claim		
23.	Criminal litigation <i>(Note 6)</i>	It was alleged that our Group has failed to take adequate steps to prevent a person on a place where the construction work was being carried out from falling from a height of two metres or more. During the trial, the prosecution offered no evidence and the summons was dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted.	N/A as acquitted

BUSINESS

No.	Nature of the claim	Particulars of the claim	Covered by insurance
24.	Criminal litigation <i>(Note 6)</i>	It was alleged that our Group has failed to ensure that, so far as was reasonably practicable, suitable and adequate safe access to and egress from a place of work where the construction work was being carried out was provided and properly maintained. During the trial, the prosecution offered no evidence and the summons was dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted.	N/A as acquitted
25.	Criminal litigation <i>(Note 6)</i>	It was alleged that our Group has failed to provide and maintain a system of work that was, so far as was reasonably practicable, safe and without risks to health of the person employed at the industrial undertaking. During the trial, the prosecution offered no evidence and the summons was dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted.	N/A as acquitted
26.	Criminal litigation <i>(Note 6)</i>	It was alleged that our Group has failed to provide such information, instruction, training and supervision as was necessary to ensure, so far as was reasonably practicable, the health and safety at work of the person employed at the industrial undertaking. During the trial, the prosecution offered no evidence and the summons was dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted.	N/A as acquitted
27.	Criminal litigation <i>(Note 6)</i>	It was alleged that our Group has failed to develop implement and maintain in respect of the relevant industrial undertaking a safety management system which contained the elements specified in Schedule 4 of the Factories and Industrial Undertakings (Safety Management) Regulation. During the trial, the prosecution offered no evidence and the summons was dismissed. As advised by the Legal Counsel, Chan Kiu was acquitted.	N/A as acquitted

BUSINESS

Notes:

1. The claim was withdrawn on 31 May 2018.
2. The claim was settled for a settlement amount of approximately HK\$22,000 on 2 October 2018.
3. The claim was settled for a settlement amount of approximately HK\$16,000 on 8 March 2021.
4. Our executive Directors confirmed that the employees’ compensation insurance, third party liability insurance and contractor’s all risks insurance taken out by the main contractors and the employees’ compensation insurance and third-party liability insurance taken out by us do not cover Labour Tribunal claims.
5. Our Group entered into an agreement with the relevant main contractor in respect of the respective liabilities for the claim, and the compensation borne by our Group was approximately HK\$320,000.
6. The criminal litigations were in relation to Lohas Park Accident in December 2019, the details of which are set out in the paragraph headed “Occupational health and work safety – Fatal accident occurred in December 2019” in this section.

Potential claims against our Group as at the Latest Practicable Date

Personal injuries suffered by our employees or by our subcontractors’ employees as a result of accidents arising out of and in the course of their employment may lead to employees’ compensation claims and common law personal injury claims against us. Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees’ compensation claims) or three years (for common law personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

As at the Latest Practicable Date, there were 16 accidents resulting in injury to our employees or employees of our subcontractors which may give rise to potential litigations in relation to employees’ compensation claims and/or common law personal injury claims against our Group. For details, please refer to the paragraph headed “Occupational health and work safety” in this section. The table below sets out a summary of the expiry of limitation period of the aforesaid work injury accidents:

Year	Number of employees’ compensation claims which limitation period will expire	Number of common law personal injury claims which limitation period will expire
From the Latest Practicable Date to 31 March 2023	4	4
FY2023/24	5	5
FY2024/25	2	5
FY2025/26	–	2
Total	<div style="border-top: 1px solid black; border-bottom: 3px double black; width: 100%; margin: 0 auto;"></div> 11	<div style="border-top: 1px solid black; border-bottom: 3px double black; width: 100%; margin: 0 auto;"></div> 16 ^(Note)

Note: Apart from claim no. 5, claim no. 8 and claim no. 9 set out in the paragraph “Litigations and claims – Ongoing civil litigations against our Group as at the Latest Practicable Date” in this section, the ongoing civil litigations have not been included in the accidents which may give rise to potential claims.

BUSINESS

As no court proceedings for such potential claims have been commenced, the Legal Counsel is of the view that the likely quantum of such potential claims cannot be assessed at this stage. As advised by the Legal Counsel, the amount of such potential claims to be borne by our Group, if any, shall be covered by insurance policies maintained by the relevant main contractors. As such, our Directors consider that such potential claims will not have any material adverse impact on our operation and financial performance and no provision had been made in respect of such potential claims.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us as at the Latest Practicable Date.

Indemnity executed by our Controlling Shareholders

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms of the Deed of Indemnity, in respect of all liabilities and penalties which may arise as a result of any legal proceedings instituted by or against our Group and non-compliance by our Group on or before the date on which the [REDACTED] becomes unconditional. Please refer to the paragraph headed "E. Other Information – 1. Tax and other indemnities" in Appendix IV to this document for details.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE MATTERS

Environmental matters

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in conformance with ISO 14001 international standard in 2018. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Set out below are policies in addressing different environmental issues pertinent to our Group:

A. *Emission*

Exhaust gas emissions

As a wet trades works contractor, our exhaust gas emissions are mainly emission generated by our forklifts, which our executive Directors consider the relevant exhaust gas emissions generated are relatively insignificant. Our Group strives to reduce the exhaust gas generated from our operation as much as possible.

BUSINESS

GHG emissions

Our major sources of greenhouse gas (“GHG”) emissions are generated from (i) combustion of petrol by our forklifts and motor vehicles (Scope 1); and (ii) electricity consumption in our office (Scope 2). The following table sets forth a breakdown of our GHG emissions during the Track Record Period:

Indicator	Unit	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Direct GHG emissions (Scope 1) – Petrol consumption	tCO ₂ e	26.91	19.46	15.71	10.01
Indirect GHG emissions (Scope 2) – Electricity consumption	tCO ₂ e	12.60	13.97	20.99	15.64
Total GHG emissions (Scope 1 and Scope 2)	tCO ₂ e	39.51	33.43	36.70	25.65

We have adopted the following measures to minimise direct GHG emissions in our operations:

- monitoring the fuel usage of our forklifts and motor vehicles and conducting regular checks and upkeep the overhaul of our forklifts and motor vehicles;
- encouraging our employees to switch off idling engines when the forklifts or motor vehicles are not in use; and
- our environmental management plan provides air pollution abatement guidelines and measures, which include (i) ensuring the concentration and rates of air pollutants are in compliance with the relevant environmental protection laws and regulations; (ii) conducting periodic checks to ensure the GHG emission of our forklifts and motor vehicles is within the standard level as prescribed by law; and (iii) prohibiting open burning on project sites.

Waste management

(a) Hazardous wastes

Due to our business nature and to the best knowledge of our executive Directors, our Group did not generate material amount of hazardous waste in the course of our operation. We have established guidelines in governing the management of hazardous substances and chemicals. For instances, a safety data sheet is compiled detailing (i)

BUSINESS

the composition and the physical and chemical properties of the hazardous material; and (ii) the instructions for safe handling, storage, use and disposal. Trainings and workshop regarding the treatment of hazardous substances and chemicals are provided to our employees. In case there are any hazardous wastes produced, we will engage a qualified chemical waste collector to handle such wastes in order to comply with the relevant environmental laws and regulations.

(b) Non-hazardous wastes

The non-hazardous wastes generated from our Group's operations mainly include paper consumed in our office. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, we generated a total of approximately 562.5 kg, 700.0 kg, 1,087.5 kg and 762.5 kg of non-hazardous wastes.

With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, our Group has implemented the following measures in waste management and launched different wastes reduction initiatives:

- providing recycling bins for different types of waste streams to promote recycling;
- promoting the use of electronic media for communication and reducing the use of paper;
- promoting reusing paper by placing a collection box for single-sided used paper next to each printer; and
- encouraging our employee to use double sided printing or photocopying wherever possible.

Sewage discharge

As we do not consume significant volume of water in our operation, our operation does not generate material discharges of water during the Track Record Period. Wastewater of our Group is discharged into the municipal sewage pipeline network for processing and the majority of water supply and discharge facilities are provided and managed by the property management company.

BUSINESS

Noise

Due to our business nature, we recognise noise generated on project sites as potential negative environmental impacts. To mitigate disturbance created to the community and the environment, we adopted certain noise pollution control policies on project sites, which include:

- taking practicable measures to reduce excessive noise by using advance construction and noise damping technology;
- investing underlying factors and make respective arrangements whenever the noise level exceeds the prescribed level regulated by the Noise Control Ordinance and other relevant regulations; and
- providing hearing protection devices to our employees.

B. Resources consumption

Energy consumption

Our Group's energy consumption mainly included (i) consumption of petrol by our forklifts and motor vehicles; and (ii) electricity consumed in office. The following table sets forth a breakdown of our major sources of energy consumption during the Track Record Period:

Type of energy consumption	Unit	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Petrol	kWh	108,099.7	78,176.0	63,095.9	40,235.5
Electricity	kWh	<u>12,603.0</u>	<u>13,971.0</u>	<u>20,994.0</u>	<u>15,641.0</u>
Total	kWh	<u><u>120,702.7</u></u>	<u><u>92,147.0</u></u>	<u><u>84,089.9</u></u>	<u><u>55,876.5</u></u>

Apart from the energy saving measures in relation to the use of forklifts and motor vehicles as mentioned above, our Group has established the following energy conservation management in order to minimise the waste of energy:

- promoting e-office practices and measures, such as switching off electronic appliances when not in use;
- encouraging our employees to set room temperature ranges from 23°C to 25°C;

BUSINESS

- conducting regular trainings and workshops to help our employees identify energy-saving measures and enhance their awareness; and
- promoting and adopting the use of energy-saving and efficient equipment and will adopt immediate maintenance once damage is reported.

Water consumption

We mainly consume water in our office. Our Group's water consumption expenses are included in the property management fee and therefore we did not have the water consumption record during the Track Record Period. To ensure water is efficiently used, our Group has adopted measures to increase water efficiency such as placing environmental signs with water-saving messages in prominent places to remind our employees to conserve water.

Social matters

Set out below are our policies in addressing different social issues pertinent to our Group:

A. *Employment*

- We are committed to upholding the principles of equal opportunities, diversity and anti-discrimination in our workplace. Recruitment and retention of employees are based on a range of diversity parameters, including but not limited to gender, age, cultural and educational background, nationality, ethnicity, industry experience, skills and knowledge.
- We conduct performance appraisal to analyse our employees' personal strengths and weaknesses, and suitability for promotion or further training. Discretionary bonus and salary adjustment are given to our employees based on their performance appraisal.

B. *Health and safety*

Please refer to the paragraph headed "Occupational health and work safety" in this section.

C. *Development and training*

- Staff handbook is given to our employees to ensure that they are familiar with our Group's policy.
- On-the-job training and industrial trainings are provided to our employees to equip them with the skills and knowledge essential to our projects.

BUSINESS

D. Labour standards

We comply with the relevant laws and regulations and follow strictly the Employment of Children Regulations and the Employment Ordinance in the recruitment of staff. We are also committed to eliminating discrimination in working environment and strive to provide our employees with equal job opportunities in relation to recruitment, training, opportunities, benefits and job arrangements, regardless of their race and gender.

Our Group also prohibits any punishments, management methods and disciplinary actions that involve verbal or physical abuse, physical punishment, or any actions that may constitute oppression or sexual harassment against our employees for any reason.

E. Supply chain management

- We have adopted a stringent policy and procedure on the selection of suppliers and subcontractors. For further details of our evaluation criteria, please refer to the paragraph headed "Basis of selecting our subcontractors" and "Basis of selecting our suppliers" in this section.
- We carry out quality assurance checks on materials received from suppliers to ensure the quality and reliability of materials meet our requirement.
- All subcontractors are required to follow our safety inspection policy and comply with our safe work practices when carrying out wet trades works on project sites.
- We have developed a procedure in evaluating and assessing the safety performance of our subcontractors. Any unsatisfactory performance of our subcontractors will be reported to our Directors and warning letter may be issued to the relevant subcontractor. If the unsatisfactory performance persisted, we may remove such subcontractor from our internal approved list of subcontractors for a period of time and cease our existing engagements with such subcontractor should there be any material non-conformance of the safety requirement following the issue of the warning letter.

F. Services responsibility

We maintain ongoing communication with our customers to ensure understanding and satisfaction of their demand and expectations.

Upon completion of our projects, the site agent of the project management team will arrange handover of the project sites to our customers. Site visits are performed by our customers and if any defects on our works are detected, we will arrange for rectifications.

BUSINESS

G. Anti-corruption and whistleblowing

We are aware of the Prevention of Bribery Ordinance and adopt a zero-tolerance policy on acts of corruption in any form, including bribery and extortion, fraud and money laundering. Our Group stipulates the disciplinary code in our staff handbook and ensure our employees understand the details of the terms. Any suspected or actual fraudulent behavior will be reported to our Directors immediately. We strongly encourage our employees to report any suspected misconduct.

To avoid any conflict of interest of our employees, we stipulate the declaration of interest guidelines in our staff handbook, which provides guidelines and procedures to our employees in exercising their good faith and honesty in all transactions and avoid using their positions or knowledge gained from their employment for their own personal benefits. Our employees are required to ensure there is no conflict of interest between their personal interest and their duties to our Group and declare any potential or perceived conflict of interest to our executive Directors when they have or have had a personal relationship with a related person.

Our Group also adopts a whistleblowing policy and encourages our employees who have concerns about any suspected misconduct or malpractice within our Group to come forward and voice their concerns. Complainants are assured of their anonymity and are protected against unfair dismissal, victimisation or unwarranted disciplinary action even when their concerns turn out to be unsubstantiated. Our Audit Committee is responsible for monitoring and reviewing the effectiveness of the whistleblowing policy.

H. Community involvement

We are working towards to building a healthy and sustainable community and maintaining communication and interaction with the community. We aim to promote the stability of society and support the underprivileged to improve the quality of life. We focus to inspire our employees towards social welfare awareness and encourage our employees to participate in voluntary works to make contribution to society.

Corporate governance matters

Our Company will comply with the Corporate Governance Code. We have established procedures for developing and maintaining internal control systems covering areas such as corporate governance, operations management, compliance matters, financial reporting, as appropriate for our business operations. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. In particular, we have adopted the following internal control measures to enhance our corporate governance:

- (i) our Board includes three independent non-executive Directors, whose backgrounds and profiles are set out in the section headed "Directors and senior management" in this document, to ensure transparency in management and fairness in business decisions

BUSINESS

- and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge;
- (ii) our Directors will review and provide recommendation on our risk management related policies and procedures, and review the effectiveness and adequacy of our risk management activities annually;
 - (iii) we have established three board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the paragraph headed “Directors and senior management – Board committees” in this document;
 - (iv) we have strengthened our internal audit system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems. Our internal control system will be reviewed by our internal audit personnel or independent internal control consultant on an annual basis to ensure that effective internal control procedures are in place;
 - (v) our Directors have attended a training session on 11 June 2021 conducted by our legal advisers as to Hong Kong law on, among other things, the obligations, on-going corporate governance requirements and the duties of directors of a company [REDACTED] on the Stock Exchange;
 - (vi) our company secretary, Mr. Choi Wan Sang Vincent, will attend external professional training each year to keep himself abreast of the latest accounting and/or regulatory regime in Hong Kong;
 - (vii) we have appointed Grande Capital as our compliance adviser to advise us on compliance matters in relation to the Listing Rules;
 - (viii) to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed “Relationship with our Controlling Shareholders – Non-competition undertakings – 3. Corporate governance measures” in this document; and
 - (ix) our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after [REDACTED].

BUSINESS

Environmental, social and climate-related risks and opportunities

Our executive Directors are responsible for evaluating and managing any material environmental, social and governance issues (“**ESG Issues**”) and climate-related risks and opportunities of our Group. Our executive Directors will meet regularly to discuss issues and risks that are pertinent to the business development of our Group. Our executive Directors will keep track of the latest policies implemented by the Government in tackling climate change. For better identification of the risks and opportunities, our executive Directors and senior management will attend to discussion on sustainability of the wet trades works industry and low-carbon economy. Our Board will work closely in identifying future risks and opportunities, as well as identifying appropriate actions to cope with the ever-changing situations.

According to the Hong Kong Observatory, Hong Kong is vulnerable to the impacts of climate change, which includes rising temperature, increasing rainfall, rising sea level and more frequent extreme weather events. Based on the findings of the Hong Kong Observatory, we have identified the following risks that can adversely affect our business development.

A. Physical risks

Increased frequency and severity of extreme weather conditions such as cyclones and extreme precipitation

During recent years, Hong Kong has faced extreme weather conditions. Extreme precipitation events have become more frequent in the last few decades. In 2018, Hong Kong was struck by Typhoon Mangkhut, resulting the highest typhoon warning signal No.10 remained in place for ten hours and causing injuries, severe damage and economic loss. Due to intense precipitation and strong wind, serious flooding were recorded in low-lying and coastal areas and roads were blocked by fallen trees, resulting in major traffic disruption the day after the typhoon. Increase in frequency and severity of extreme weather events may result in the following adverse impacts on our Group:

- Delay in project completion: The progress of our projects could be adversely affected if there is an increase in the occurrence of tropical cyclones and/or floods. The rising frequency of extreme weather conditions are likely to interrupt the delivery of our materials, project schedule and wreak havoc on the project sites’ environment. Any damage on our project sites will render us in deploying more resources on ensuring the safety conditions of our project sites before work is resumed, thereby resulting in delay in our projects as heightened safety procedures are adopted. In particular, our employees and/or our subcontractors’ employees may be required to work at scaffolding, which are susceptible to extreme weather conditions such as strong wind. If there is any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

BUSINESS

- Increase in our operation costs: We may have to deploy additional resources to minimise the potential adverse impacts caused by extreme weather hazards. For instance, should there be any temporary project suspension and/or delay resulted from extreme weather conditions, we may have to deploy additional workers, engage additional subcontractors and/or arrange for additional overtime works to ensure timely delivery of works to our customers, thereby increasing our operating costs and resulting in project costs overrun. Further, we may have to implement additional precautionary and safety measures at our project sites to prevent damage caused by extreme weather conditions, resulting in an increase in our overall operating costs.
- Increase in maintenance cost and storage fees for our machinery: Although we normally store our machinery and equipment at indoor areas on project sites when they are in use, extreme weather conditions may result in flooding in indoor area or collapse of scaffolding and cause damages to our machinery, resulting in increased maintenance cost. If our machinery and equipment is damaged, there is a need to replace the machinery or lease additional machinery from short-term lessors to ensure timely completion of our wet trades works.

Rising mean temperature and increasing number of days of extreme heat

According to the Hong Kong Observatory, the average temperature increasing rate per decade was 0.13°C from 1885 to 2020. The rate of increase accelerated in the latter half of the 20th century and the average increasing rate per decade was 0.24°C from 1991 to 2020. Furthermore, the annual number of very hot days (i.e. days with a maximum temperature of 33°C or above) in Hong Kong has increased from 2.2 for 1885 to 1914 to 17.5 for 1991 to 2020.

Our employees and/or our subcontractors' employees are prone to rising temperatures since most of our project sites are not equipped with air-conditioning systems. Hot weathers can easily lead to heat exhaustion, heat strokes or other health diseases. To lower the risks of sickness suffered by our employees and/or our subcontractors' employees, we will have to provide heat-relieving measures, such as providing electric fans, resting areas and sufficient hydration to the workers, to combat increasing temperatures and re-arrange work schedules to avoid working under hot weathers.

Similarly, our machinery located at our project sites may face the problem of overheating and lead to reduced useful life. We will have to adopt additional measures, which include letting the machinery rest after prolonged use and more frequent maintenances to ensure smooth implementation of our projects, thereby resulting in additional costs to be incurred by us.

Rising temperature and heightened precipitation has also resulted in the proliferation of mosquitoes, which increases the risk of transmission of mosquito-borne diseases in Hong Kong. Several mosquito-borne diseases are of public health concern in Hong Kong,

BUSINESS

including dengue fever and Japanese encephalitis. Heightened measures will have to be implemented at our project sites to guard against mosquito-borne diseases, such as (i) frequent cleaning at the project site to avoid accumulation of stagnant water; (ii) installation of bug zappers; and (iii) encourage workers to wear loose, light-coloured, long-sleeved tops and trousers and wear insect repellent clothing at work.

Rising sea levels

Hong Kong is a low-lying coastal city, and the rise in sea level can pose immediate flooding risk. Low-lying areas in Hong Kong such as Tai O, North District and Lei Yue Mun are constantly hit by flooding in summer. Flooding at our project sites may result in severe damages to our wet trades works performed, resulting in rectification works to be performed and additional costs and time to be incurred by us. If the rectification works to be performed by us result in any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

B. Transitional risks

Potential impairment on our financial performance due to the transition to low-carbon economy

The Government has been working towards to achieve sustainable development in Hong Kong. In response to the Paris Agreement, which was ratified by the PRC on 3 September 2016 and applied to Hong Kong as decided by the Central People's Government of the PRC, the Government has implemented the Hong Kong's Climate Action Plan 2030+, targeting to reduce the carbon emission per capita by 3.3 to 3.8 tonnes, absolute carbon emission by 26% to 36% and carbon intensity by 65% to 70% in 2030, as compared to 2005. Furthermore, the Government also aims to (i) reduce carbon by phasing down coal for electricity generation and replacing it with natural gas by 2030; (ii) optimise the introduction of renewable energy in a more systematic manner with the Government taking the lead; (iii) promote energy saving to continuously reduce carbon emissions in construction and property development; and (iv) provide a safe, efficient, reliable and environmentally friendly transport system.

There is no assurance that the Government will not impose carbon tax on the emission of greenhouse gases ("GHG"). In the event that the Government decided to levy carbon tax, our financial performance may be adversely affected as we may have to allocate resources in strengthening our environmental control measures on lowering our GHG emissions or settle any levies imposed by the Government on our GHG emission.

The NRMM Regulation came into effect on 1 June 2015 to introduce regulatory control on the emissions of NRMMs. Unless exempted, NRMMs are required to comply with the emission standards prescribed under this regulation. As at the Latest Practicable Date, our Group owned three forklifts, which are Regulated Machines and are subject to the

BUSINESS

NRMM Regulation. For further details, please refer to the paragraph headed “Regulatory overview – Laws and regulations in relation to environmental protection – Air Pollution Control (Non-road Mobile Machinery) (Emission) Regulation (Chapter 311Z of the Laws of Hong Kong)” in this document.

There is no assurance that the Government will not tighten the regulation on the emission of NRMM. In the event that the Government decided to tighten the regulation, our financial performance may be adversely affected as we may have to incur additional cost in replacing our existing Regulated Machines.

Changing customer behaviour

Driven by the gradual recognition and promotion of low-carbon economy by the Government, our executive Directors anticipate that our Group will be increasingly required by our customers to adopt clean technology and deploy energy-saving and efficient machinery in performing our projects. If we are unable to fulfil our customers’ requirements in this regard, our customers may become less likely to award projects to us, resulting in material adverse impact on our reputation, business, financial condition and results of operation.

C. Opportunities

Our Group has identified the following potential business opportunities arising from our promotion of low-carbon economy:

Reduce fossil usage and consumption

In view of the increasing awareness of sustainable development and green energy, our Group has set out a plan in replacing our forklifts with those that emit less GHG or are more efficient in energy consumption. As at the Latest Practicable Date, our Group did not have a fixed timeline for the replacement schedule. The replacement of our existing forklifts is likely to provide long-term benefits to our Group. With reduced GHG emission, we will create a more environmentally-friendly workplace for our employees and our subcontractors.

Increasing opportunities in environmentally-friendly urban redevelopment

According to the Industry Report, the Government is actively redeveloping old buildings (i.e. buildings aged 50 years or above) into new buildings of modern standard, environmentally-friendly and smart design, which is expected to bring sustained demand for wet trades works in urban renewal projects. Driven by the gradual recognition and promotion of low-carbon economy as well as advocacy of green buildings by the Government, our executive Directors consider that we will be able to capture the new sources of project opportunities and the increasing demand for environmentally-friendly development in Hong Kong.

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

We have engaged an independent internal control adviser (the “**Internal Control Adviser**”) to identify control deficiency and made recommendation over our Group’s internal control systems. The Internal Control Adviser possesses around four years of experience in providing internal control review. In particular, it has conducted internal control review for a number of listed issuers or listing applicants in Hong Kong. The Internal Control Adviser is headed by the managing director who possesses qualification as a fellow of the Hong Kong Institute of Certified Public Accountants. The scope of reviews conducted by the Internal Control Adviser mainly covered corporate governance, compliance with applicable rules and regulations, anti-fraud program and controls, financial reporting and disclosure controls, revenue management, expenditure management, cash and treasure management, fixed assets management, human resources and payroll management, project management (including controls on work safety), tax management and IT general controls. The internal control reviews and the relevant follow-up reviews (the “**Reviews**”) were conducted by the Internal Control Adviser during the periods from (i) October 2020 to November 2020; and (ii) April 2021 to May 2021, respectively.

Based on the results of the Reviews, our Directors were not aware of any finding which suggests material deficiency over our Group’s internal control systems. Meanwhile, the Internal Control Adviser has made various recommendations to us to further enhance certain key aspects of our internal control systems, including (i) establishment of corporate governance practices, such as, risk assessment procedure, anti-corruption and whistleblowing program, and procedures for handling conflict of interests, notifiable and connected transactions and inside information; (ii) enhancement of operational policies and guidelines, such as incorporation of authorisation matrix in existing policies and establishment of operational checklists; and (iii) enhancement of documentation over key operational procedures and approval processes, such as establishment of requisition and approval forms. These recommendations have been considered by our Group and remediation actions have already been taken up before the Latest Practicable Date.

Key risks relating to our business are set out in the section headed “Risk factors” in this document. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation:

(i) Customer concentration risk

Please refer to the paragraph headed “Our customers – Customer concentration” above in this section.

(ii) Risk of cost overruns

We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs we incur would not exceed our estimation during the course of project implementation. For details of our measures on

BUSINESS

minimising the risk of cost overruns, please refer to the paragraph headed “Pricing strategy” above in this section.

(iii) Risk relating to subcontractors’ performance

Please refer to the paragraphs headed “Our suppliers – Basis of selecting our subcontractors” and “Quality control – Works performed by subcontractors” above in this section.

(iv) Credit risk management

We are subject to risks in relation to the collectability of our trade and other receivables, details of which are summarised in the paragraph headed “Risk factors – We are subject to credit risk in relation to the collectability of our trade receivables and contract assets”.

For the purpose of mitigating our exposure to credit risk, our finance and administration staff are responsible for conducting individual credit evaluations on our customers on a regular basis. Prior to accepting work orders from new customers, our finance and accounting staff would check on the background of the potential customer in order to access their credibility.

Material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions having regard to our business relationship with the customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications and conducting follow up calls with the customers.

We generally grant our customers a credit term of 14 to 60 days from the invoice date. As at 31 March 2019, 2020, 2021 and 2022, we recorded trade receivables (net of provision for impairment) of approximately HK\$39.0 million, HK\$52.4 million, HK\$35.9 million and HK\$27.2 million respectively. For FY2018/19, FY2019/20, FY2020/21 and FY2021/22, our trade receivables turnover days were approximately 22.2 days, 32.5 days, 36.6 days and 25.2 days, respectively.

To ensure timely identification of doubtful or irrecoverable debts, our finance and administration staff would report to our financial controller on the collection status and ageing analysis of outstanding payments on a regular basis. Trade receivables overdue will be reviewed by our financial controller and, if appropriate, provisions for impairment of trade receivables will be made accordingly.

BUSINESS

(v) Liquidity risk management

There are often time lags between making payment to our suppliers and receiving payment from our customers when undertaking contractual works, resulting in possible cash flow mismatch.

In order to manage our liquidity position in view of the aforementioned working capital requirement and the possible cash flow mismatch associated with undertaking contractual works, we have adopted the following measures:

- our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements;
- as a general policy, we only procure materials and toolings on an as-needed basis according to the requirement and schedule of the project to prevent excessive purchases; and
- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of amounts due from our customers; and (iii) performing monthly review of our trade payables and aging analysis to ensure that payments to our suppliers are made on a timely basis.

We have established the following policies with a view to further improve our cash flow position on project level since May 2021:

- our project management team shall prepare a profit and cashflow forecast, inclusive of a cost budget, for each project prior to its commencement. The profit and cashflow forecast shall be submitted to our finance and administration department and executive Directors for approval. Our projects shall be implemented according to the respective cost budget;
- actual expenses incurred and cashflow status of each project is monitored by our project management team on an ongoing basis. Our project management team is responsible for documenting cash inflow from customers and cash outflow to suppliers and subcontractors and preparing cashflow statements for each project and submitting the cashflow statements to our finance and administration department on a monthly basis;

BUSINESS

- our finance and administration department, led by our financial controller, is responsible for reviewing the cashflow statements and performing analysis on any difference between the actual and forecast cashflow for each project and submitting the cashflow statements to our Group's management for review;
- revisions to project cost budget, which requires approval from our executive Directors, may be made to control the cost target of projects. Any revisions to project cost budget shall (i) identify the causes of the increase in cost of the project; and (ii) set out the measures to be taken to control the cost of the project. Revisions to cost budget may be made due to rectification works, changes in work scope, material changes in economic conditions or occurrence of force majeure event;
- in the event that there is significant net cash outflow of a project which indicates delay in payment certification or loss making project, our finance and administration staff will actively follow up with the relevant customer for payment or plan for financing;
- our finance and administration staff is responsible for performing review of subsequent settlement of trade receivables, trade payables and contract assets on a monthly basis;
- after our customers acknowledge our monthly payment applications, our finance and administration staff will closely communicate with the customers on the status of the certification process. Our executive Directors will ensure that any customers' feedbacks on our Group's payment applications are promptly addressed; and
- material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions, including active communications and conducting follow up calls with the customers.

In assessing the effectiveness of the implementation of our liquidity control measures since May 2021, the Sponsor has taken into consideration the followings:

- (i) there was no material difference between the actual and forecast cashflow for our ongoing projects. Notwithstanding we may experience net cash outflow at the early stage of a project, such cash outflow had been taken into account by our executive Directors and project management team in projecting the cashflow of such projects and our projects are generally able to achieve a net cash inflow as they progress into later stages;
- (ii) no material revision was made to the cost budget of our ongoing projects. Save for Project #01, our Group did not experience any material cost overrun, nor did we record any loss-making project;

BUSINESS

- (iii) our Group did not experience material difficulty in the collection of our trade receivables. Up to 12 July 2022, approximately 87.9% of our trade receivables as at 31 March 2022 had been subsequently settled. For further details on the subsequent settlement of our trade receivables, please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Trade receivables – Aging analysis and subsequent settlement" in this document. Our executive Directors and finance and administration staff have continuously monitored and evaluated our overdue payments by following up with the relevant customers. We have maintained a register which recorded the reasons for the overdue payments based on our enquiries with customers and our analysis on the overdue payments. As at the Latest Practicable Date, our Group was not involved in any material dispute, claim, arbitration or litigation with our customers in relation to the settlement of our trade receivables;
- (iv) our Group did not experience any material dispute in the payment certification of our projects. Up to 12 July 2022, approximately 74.0% of our unbilled revenue as at 31 March 2022 had been subsequently billed. For further details, please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Contract assets and contract liabilities – Subsequent billing and settlement" in this document. Further, the relatively long-aged unbilled revenue was mainly attributable to projects which are at their final stage and hence additional time is required by the customer to perform final review and approval for the relevant work done of the entire project before issuing the relevant payment certificate to us; and
- (v) our Group did not experience any material difficulty in the settlement of our trade payables. Up to the Latest Practicable Date, all of our trade payables as at 31 March 2022 had been settled. For further details on the subsequent settlement of our trade payables, please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Trade payables – Aging analysis and subsequent settlement" in this document. Further, our Group was not involved in any material dispute, claim, arbitration or litigation with our suppliers in relation to the settlement of our trade payables.

Based on the above, the Sponsor is not aware of any circumstances which would result in a material increase in our indebtedness level or other financial difficulties to us due to liquidity problem. As such, the Sponsor is of the view that there is no material finding which cast doubt on the effectiveness of our liquidity control measures.

BUSINESS

(vi) Regulatory risk management

We keep ourselves abreast of any changes in government policies, regulations, and licensing requirements in relation to our business operations, as well as relevant environmental, safety requirements. We will ensure that any changes of the above are closely monitored and communicated to our management and supervisory team members for proper implementation and compliance.

(vii) Occupational health and work safety

Please refer to the paragraph headed “Occupational health and work safety” in this section.

(viii) Quality control system

Please refer to the paragraph headed “Quality control” in this section.

(ix) Environmental management system

Please refer to the paragraph headed “Environmental compliance” above in this section.

(x) Compliance culture

Our Directors believe that compliance creates value for us and dedicate to cultivating a compliance culture among all of our employees. To ensure such compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.