

## REGULATORY OVERVIEW

### OVERVIEW

Our Group is a contractor specialising in passive fire protection works in Hong Kong during the Track Record Period and up to the Latest Practicable Date. This section summarises the principal laws and regulations of Hong Kong which are relevant to our business. As this is a summary, it does not contain detailed analysis of the Hong Kong laws which are relevant to our business.

### THE LAWS AND REGULATIONS OF HONG KONG

#### A. Laws and regulations in relation to construction labour, health and safety

##### *Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong)*

The Factories and Industrial Undertakings Ordinance provides for the safety and health protection to workers in an industrial undertaking. Under the Factories and Industrial Undertakings Ordinance, it is the duty of a proprietor (including person for the time being having the management or control of the business carried on in such industrial undertaking and also the occupier of any industrial undertaking) of an industrial undertaking to take care of, so far as is reasonably practicable, the health and safety at work of all persons employed by him at the industrial undertaking. The duties of a proprietor extend to include:

- (a) providing and maintaining plant and work systems that do not endanger safety or health;
- (b) making arrangements for ensuring safety and health in connection with the use, handling, storage and transport of articles and substances;
- (c) providing all necessary information, instructions, training and supervision for ensuring safety and health;
- (d) providing and maintaining safe access to and egress from the workplaces; and
- (e) providing and maintaining a safe and healthy working environment.

A proprietor who contravenes any of these duties commits an offence and is liable to a fine of HK\$500,000. A proprietor who contravenes any of these requirements wilfully and without reasonable excuse commits an offence and is liable to a fine of HK\$500,000 and to imprisonment for 6 months. Our Group may be considered to be regarded as a proprietor as our operations encompass management or control of the projects which we carry on in the construction works, and any breach of duty as a proprietor under the Factories and Industrial Undertakings Ordinance may render our Group liable to a fine of HK\$500,000.

We are required to comply with Section 6BA of the Factories and Industrial Undertakings Ordinance which provides that persons employed by industrial undertakings who are engaged in construction works must attend the relevant safety

## REGULATORY OVERVIEW

training courses recognised under the Factories and Industrial Undertakings Ordinance and be issued a Green Card pursuant to the attendance of such safety training courses. It is a duty of every proprietor of an industrial undertaking engaging in construction work not to employ at the undertaking a relevant person who has not been issued a relevant Green Card or whose relevant Green Card has expired. A Green Card shall expire between 1 to 3 years after the date on which the relevant certificate was issued. A proprietor who contravenes the said Section 6BA commits an offence and is liable to a fine of HK\$50,000. Records of persons employed were kept by our Group and our subcontractors to ensure compliance.

Matters regulated under the subsidiary regulations of the Factories and Industrial Undertakings Ordinance, including the Construction Sites (Safety) Regulations (Chapter 59I of the Laws of Hong Kong) includes (i) the prohibition of employment of persons under 18 years of age (save for certain exceptions); (ii) the maintenance and operation of hoists; (iii) the duty to ensure safety of places of work; (iv) prevention of falls; (v) the duty to comply with miscellaneous safety requirements; and (vi) provision of first aid facilities. Non-compliance with any of these rules constitutes an offence and different levels of penalty will be imposed and a contractor guilty of the relevant offence could be liable to a fine up to HK\$200,000 and imprisonment up to 12 months. As the Construction Sites (Safety) Regulation is applicable to all construction work, all construction sites and all machines, plant and materials which construction work is carried on, we are required to comply with the Construction Sites (Safety) Regulations.

### *Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)*

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

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

- (a) provision and maintenance of plant and systems of work that are safe and without risks to health;
- (b) making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- (c) as regards any workplace under the employer's control:
  - (i) maintenance of the workplace in a condition that is safe and without risks to health; and
  - (ii) provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks;

## REGULATORY OVERVIEW

- (d) providing all necessary information, instructions, training and supervision for ensuring safety and health;
- (e) provision and maintenance of a working environment that is safe and without risks to health; and
- (f) provision and maintenance of means of access to and egress from the workplace that are safe and without any such risks.

Failure to comply with any of the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commission for Labour may also issue an improvement notice against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such notices without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months.

As our Group employs workers to carry out works at the workplaces, such as construction sites, our Group is subject to the Occupational Safety and Health Ordinance to, as far as reasonably practicable, ensure the safety and health protection to our workers. We have set up an occupational health and safety system to promote safe working practices among all employees to prevent occurrence of accidents in our daily operation. For details, please refer to the section headed "Business — Occupational health and safety" in this document.

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

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

According to Section 15(1A) of the Employees' Compensation Ordinance, an employer shall report work injuries which result in total or partial incapacity of its employee to the Commissioner for Labour not less than 14 days after the accident.

## REGULATORY OVERVIEW

Pursuant to Section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). Under Section 40(1B) of the Employees' Compensation Ordinance, where a main contractor has undertaken to perform any construction work, it may take out an insurance policy for an amount not less than HK\$200 million per event to cover his liability and that of its subcontractor(s) under the Employees' Compensation Ordinance and at common law. Where a main contractor has taken out a policy of insurance under Section 40(1B) of the Employees' Compensation Ordinance, the main contractor and a subcontractor insured under the policy shall be regarded as having complied with Section 40(1) of the Employees' Compensation Ordinance.

An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction upon indictment to a fine at level 6 (currently at HK\$100,000) and imprisonment for 2 years.

As our Group employs workers and staff members who may be exposed to injuries whilst in the course of their works, our Group shall comply with the Employees' Compensation Ordinance in taking out insurance policy to cover our Group's liabilities in the event of injury occurring to employees in the course of their works and is obliged to report the injury of employees to the Labour Department in accordance with the provision of the Employees' Compensation Ordinance.

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

A main contractor shall be subject to the provisions on subcontractor's employees' wages in the Employment Ordinance. According to Section 43C of the Employment Ordinance, a main contractor, or a main contractor and every superior subcontractor jointly and severally is/are liable to pay any wages that become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance. The liability of a main contractor and superior subcontractor (where applicable) shall be limited (a) to the wages of an employee whose employment relates wholly to the work which the main contractor has contracted to perform and whose place of employment is wholly on the site of the building works; and (b) to the wages due to such an employee for 2 months (such months shall be the first 2 months of the period in respect of which the wages are due).

An employee who has outstanding wage payments from subcontractor must serve a notice in writing on the main contractor within 60 days after the wage due date. A main contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of the subcontractor if that employee fails to serve a notice on the main contractor.

## REGULATORY OVERVIEW

Upon receipt of such notice from the relevant employee, a main contractor shall, within 14 days after receipt of the notice, serve a copy of the notice on every superior subcontractor to that subcontractor (where applicable) of whom he is aware. A main contractor who without reasonable excuse fails to serve notice on the superior subcontractor(s) shall be guilty of an offence and shall be liable on conviction to a fine at level 5 (currently at HK\$50,000).

Pursuant to Section 43F of the Employment Ordinance, if a main contractor or superior subcontractor pays to an employee any wages under Section 43C of Employment Ordinance, the wages so paid shall be a debt due by the employer of that employee to the main contractor or superior subcontractor, as the case may be. The main contractor or superior subcontractor may either (1) claim contribution from every superior subcontractor to the employee's employer or from the main contractor and every other such superior subcontractor as the case may be, or (2) deduct by way of set off the amount paid by him from any sum due or may become due to the subcontractor in respect of the work that he has subcontracted.

As our Group subcontracts its passive fire protection works to subcontractors, our Group as a superior subcontractor may be subject to claim(s) by the workers of our subcontractors and be held liable for wages of workers of our subcontractors if any of our subcontractors fails to pay wages to its employees

### *Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)*

Employers are required to enrol their regular employees (except for certain exempt persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund ("MPF") scheme within the first 60 days of employment.

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

### *Industry Scheme*

Industry Schemes were established under the MPF system for employers in the construction and catering industries in view of the high labour mobility in these two industries, and the fact that most employees in these industries are "casual employees" whose employment is on a day-to-day basis or for a fixed period of less than 60 days.

## REGULATORY OVERVIEW

For the purpose of the Industry Schemes, the construction industry covers eight categories, including (1) foundation and associated works; (2) civil engineering and associated works; (3) demolition and structural alteration works; (4) refurbishment and maintenance works; (5) general building construction works; (6) fire services, mechanical, electrical and associated works; (7) gas, plumbing, drainage and associated works; and (8) interior fitting-out works.

The Mandatory Provident Fund Schemes Ordinance does not stipulate that employers in these two industries must join the Industry Schemes. The Industry Schemes provide convenience to the employers and employees in the construction and catering industries. Casual employees do not have to switch schemes when they change jobs within the same industry, so long as their previous and new employers are registered with the same Industry Scheme. This is convenient for scheme members and saves administrative costs.

As our Group retains regular employees in the construction sites, our Group is obliged to make mandatory provident contributions to our employees.

### *Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)*

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

As our Group rents several properties, our Group is considered to be an occupier of such properties under the Occupiers Liability Ordinance.

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

According to Section 38A of the Immigration Ordinance, a construction site controller (i.e. the principal or main contractor and includes a subcontractor, owner, occupier or other person who has control over or is in charge of a construction site) shall take all practicable steps to (i) prevent having illegal immigrants from being on site or (ii) prevent illegal workers who are not lawfully employable from taking employment on site.

Where it is proved that (i) an illegal immigrant was on a construction site or (ii) such illegal worker who is not lawfully employable took employment on a construction site, the construction site controller commits an offence and is liable to a fine of HK\$350,000.



## REGULATORY OVERVIEW

### *Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)*

The Construction Workers Registration Ordinance provides, among others, for registration and regulation of construction workers. The principal objective of the Construction Workers Registration Ordinance is to establish a system of registration of construction workers and to regulate construction workers who personally carry out construction work on construction sites.

Under Section 3(1) and Section 5 of the Construction Workers Registration Ordinance, a person shall not personally carry on a construction site construction work unless the person is a registered construction worker of the Register of Construction Workers. Hence, the principal contractors/subcontractors/employers/controllers of construction sites are required to employ only registered construction workers to personally carry out construction works on construction sites.

Under the Construction Workers Registration Ordinance, a subcontractor, in relation to a principal contractor, is defined as any person who enters into a contract with another person (whether or not the principal contractor) to undertake all or any part of the construction work that the principal contractor has undertaken. As our Group is within the definition of a subcontractor under the Construction Workers Registration Ordinance, our Group is required to only employ registered construction workers to personally carry out construction works for our projects. During the Track Record Period and as at the Latest Practicable Date, all our employees carrying out construction works on construction sites were registered as registered construction workers under the Construction Workers Registration Ordinance.

### **B. Contractor licensing regime and operation**

#### *Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)*

Under the Construction Industry Council Ordinance, a main contractor involved in public works contracted to them involving structural works, finishing works and/or electrical and mechanical works under the Primary Register of the Subcontractor Registration Scheme shall only engage subcontractors who are registered under the Subcontractor Registration Scheme.

Subcontractors in Hong Kong may apply for registration under the Subcontractor Registration Scheme managed by the Construction Industry Council. The Subcontractor Registration Scheme was formerly known as the Voluntary Subcontractor Registration Scheme.

If a registered subcontractor further subcontracts any part of the public sector works subcontracted to them involving trades available under the Primary Register of the Subcontractor Registration Scheme, the main contractor shall ensure that all subcontractors (irrespective of tier) are registered subcontractors under their relevant trades in the Primary Register of the Subcontractor Registration Scheme.

## REGULATORY OVERVIEW

On 1 April 2019, the Subcontractor Registration Scheme was subsequently renamed as the Registered Specialist Trade Contractors Scheme (the "**RSTCS**") comprising two registers namely the Register of Specialist Trade Contractors (the "**RSTC**") and the Register of Subcontractors (the "**RS**"). All references to the Subcontractor Registration Scheme shall be substituted by the RSTCS with effect from 1 April 2019.

For an application for registration on the RS, an entity holding a valid business registration in Hong Kong which meets the registration requirements as set out by the Construction Industry Council in the Rules and Procedures for the RS may apply for registration on the RS. According to the Rules and Procedures for the RS published in March 2023, the registration requirements for registration on the RS are either (a) completion of at least one job within the last five years as a main contractor/subcontractor in the trades and specialties for which registration is applied; or comparable experience acquired by the applicant or its proprietors, partners or directors within the last five years; or (b) listings on one or more government registration schemes relevant to the trades and specialties for which registration is sought; or (c) the company's proprietor, partner or director having been employed by a registered subcontractor for at least five years with experience in the trade/specialty applied for and having completed all the modules for the project management training series for subcontractors (or equivalent) conducted by the Construction Industry Council; or the company's proprietor, partner or director having registered as registered skilled worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade/specialty with at least five years' experience in the trade/specialty applied for and having completed the senior construction workers trade management course (or equivalent) conducted by the Construction Industry Council.

All subcontractors who are registered under the previous seven designated trades, namely, demolition, concreting formwork, reinforcement bar fixing, concreting, scaffolding, curtain wall and erection of concrete precast component of the Subcontractor Registration Scheme have automatically become registered specialist trade contractors. All subcontractors who are registered under the remaining trades of the Subcontractor Registration Scheme have been retained as registered subcontractors. Up to the Latest Practicable Date, there are 12 designated trades with the addition of the following trades in the RSTC: plastering, suspended ceiling, tower crane (erecting, dismantling and altering height), building drainage installation and levelling & setting out.

Registered specialist trade contractors within each designated trade are further divided into Group 1 ("**Group 1**") or Group 2 ("**Group 2**") according to the relevant registration requirements under the RSTCS fulfilled by them. For an application for registration on the RSTC, the applicant shall possess or set up in Hong Kong a place of business as defined in section 2 of the Business Registration Ordinance and it has to meet the prescribed registration requirements as set out in Schedule 2 of the Rules and Procedures for the RSTC in respect of the applied trade category in order to make an application for registration on the RSTC. For the registration requirements of the designated trade of suspended ceiling, the requirements as set out in the Rules and Procedures for the RSTC published in March 2023 for Group 1 and Group 2 are as follows:



## REGULATORY OVERVIEW

	Group 1 <sup>Note 4</sup>	Group 2 <sup>Note 4</sup>
<b>1. Safety</b>		
1.1 Full-time qualified safety personnel	at least one personnel with safety supervisor qualification <sup>Notes 1 &amp; 3</sup>	at least three personnel with safety supervisor qualification <sup>Notes 1 &amp; 3</sup>
1.2 Site safety record	provide the proof for at least one project of no less than HK\$1 million with satisfactory performance	provide the proof for at least two projects of no less than a total of HK\$10 million with satisfactory performance and at least one project of no less than HK\$5 million
<b>2. Management</b>		
2.1 Senior management	at least one director with five years of relevant project management experience <sup>Note 3</sup>	at least one director with five years of relevant project management experience <sup>Note 3</sup>
2.2 Technical staff	at least one technical staff with five years of experience and qualification relevant to the designated trade applied for (skilled worker or above) <sup>Notes 2 &amp; 3</sup>	at least three technical staff with five years of experience and qualification relevant to the designated trade applied for (skilled worker or above) <sup>Notes 2 &amp; 3</sup>
2.3 Continuous professional development (CPD)	each of the abovementioned management (including safety staff) should have completed at least five hours per year of recognised CPD training	each of the abovementioned management (including safety staff) should have completed at least five hours per year of recognised CPD training
<b>3. Job Experience</b>		
3.1 Track record	provide the proof for at least one project of no less than HK\$1 million with satisfactory performance	provide the proof for at least two projects of no less than a total of HK\$10 million with satisfactory performance and at least one project of no less than HK\$5 million
<b>4. Execution</b>		
4.1 Long-term employment staff (including technical staff)	at least two semi-skilled/skilled workers <sup>Notes 2 &amp; 3</sup>	at least six semi-skilled/skilled workers <sup>Notes 2 &amp; 3</sup>
<b>5. Finance</b>		
5.1 Employed capital	minimum HK\$0.5 million	minimum HK\$1.5 million
5.2 Working capital	minimum HK\$0.5 million	minimum HK\$1.5 million
5.3 Audited report	submit the annual return and audited financial statements	submit the annual return and audited financial statements
<b>6. Integrity</b>		
6.1 Integrity Policy	submit company integrity policy	submit company integrity policy
6.2 Integrity Training	at least one senior management staff should have completed at least one hour of relevant integrity training within each term of registration	at least one senior management staff should have completed at least one hour of relevant integrity training within each term of registration

## REGULATORY OVERVIEW

*Notes:*

- (1) Safety supervisor qualification refers to a person who has completed the construction industry safety supervisor course organised by the Construction Industry Council or Occupational Safety and Health Council or above.
- (2) Skilled or semi-skilled workers refer to registered skilled or semi skilled workers registered with the relevant trade divisions under the Construction Workers Registration Ordinance.
- (3) As at the Latest Practicable Date, we had (i) four staff who satisfied registration requirement 1.1; (ii) one staff who satisfied registration requirement 2.1; (iii) three staff who satisfied registration requirement 2.2; and (iv) six staff who satisfied registration requirement 4.1.
- (4) If we fail to meet the registration requirements such that we are not entitled to be registered, our registrations may be cancelled or be unable to renew upon their expiry (for details, please refer to the section headed "Risk factors — The loss of or failure to obtain and/or renew our registrations under the Registered Specialist Trade Contractors Scheme could materially and adversely affect us" in this document).

The registration of a registered specialist trade contractor under Group 1 or Group 2 will affect the tender limit (the "**Tender Limit**") of contracts/subcontracts of works that a registered specialist trade contractor may undertake. The tender limits for tenders to be invited for subcontractors vary among the different designated trade categories for Group 1, whereas there is no limit to the tender value of contracts/subcontracts for designated trade categories for Group 2. For the designated trade of suspended ceiling, the Tender Limit of contract/subcontract values up to HK\$7 million for Group 1 is imposed for projects to be invited for tenders on or after 1 January 2023, whereas there is no Tender Limit imposed for Group 2.

As at the Latest Practicable Date, Easy Smart Engineering was registered (i) in the RS of the Construction Industry Council in the trades of shutters/doors fabrication and installation — fire rated door, painting — others (fire protection paint), other finishing trades and components — others (fire protection enclosure), other finishing trades and components — others (fire protection plaster), structural steelwork and metal work; and (ii) in the RSTC of the Construction Industry Council in the trade of suspended ceiling (Group 2), and Easy Smart Maintenance was registered (i) in the RS of the Construction Industry Council in the trades of shutters/doors fabrication and installation — fire rated door, painting — others (fire protection paint), other finishing trades and components — others (fire protection enclosure) and other finishing trades and components — others (fire protection plaster); and (ii) in the RSTC of the Construction Industry Council in the trade of suspended ceiling (Group 1).

Regarding the registration of a registered specialist trade contractor, when a registered specialist trade contractor meets all the relevant requirements of change of registration and the registered specialist trade contractor is suitable for registration with the grouping changed, the Committee on RSTCS may change a registered specialist trade contractor's grouping upon application for change of grouping (upgrade to Group 2) made by the registered specialist trade contractor.

## REGULATORY OVERVIEW

According to the Model Clauses for engagement of subcontractors registered from the Registered Specialist Trade Contractors Scheme of the Construction Industry Council published in June 2022, certain special conditions of the contract are proposed to be incorporated into the Agreement & Schedule of Conditions of Building Contract for use in Hong Kong, amongst which, it proposes that the main contractor shall only engage a subcontractor of the respective designated trade if (i) a subcontractor has completed registration under the relevant designated trades in the RSTCS before the commencement of the works under the relevant sub-contract; and (ii) if the value of the relevant subcontract exceeds the tender limit of Group 1, the subcontractor has been admitted into Group 2 before the commencement of the works under the relevant subcontract.

During the Track Record Period, we undertook three projects, namely Projects 99, 4433 and 5331, that involved the designated trade of suspended ceilings and with the subcontract value exceeding HK\$7 million based on the original contract sum of such projects. The original contract sum of the above projects ranged from approximately HK\$9.1 million to HK\$36.5 million. The revenue derived from these projects was approximately HK\$12.3 million, nil, HK\$1.6 million and HK\$0.9 million, representing approximately 8.2%, nil, 0.7% and 0.7% of our revenue for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, respectively.

Easy Smart Engineering applied for a change of grouping (i.e. upgrade to Group 2 without tender limits) in November 2022 and was registered in the designated trade of suspended ceiling (Group 2) effective 17 March 2023. Taking into account (i) the successful registration of Easy Smart Engineering as a registered specialist trade contractor for the designated trade of suspended ceiling (Group 2) with no Tender Limit imposed; and (ii) our existing projects (including the five earmarked projects, namely, Projects 5330, 5121, 5399, 5153 and 5411, which we intend to allocate a portion of the net [REDACTED] from the [REDACTED]) have been tendered before the implementation of the Tender Limit on 1 January 2023, we did not experience any significant impact from the aforesaid tender limits on projects involving suspended ceiling to our Group's operations and financial performance before the effective registration on 17 March 2023.

### **C. Laws and regulations in relation to environmental protection**

#### *Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)*

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

## REGULATORY OVERVIEW

The Air Pollution Control Ordinance provides that the owner of any premises, which includes a contractor who has possession of a site for the purpose of construction work, used for conduct of any process specified in Schedule 1 of the Air Pollution Control Ordinance shall use best practicable means for preventing the emission of noxious or offensive emissions from such premises and for preventing the discharge, whether directly or indirectly, of such emissions into the atmosphere, and for rendering such emissions where discharged harmless and inoffensive. Any person who fails to comply with the provision commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months, and, in addition, if the offence is a continuing offence, to a fine of HK\$20,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong), the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong) and the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong). The contractor responsible for a construction site shall devise, arrange methods of working and carry out the works in such a manner so as to minimise dust impacts on the surrounding environment, and shall provide experienced personnel with suitable training to ensure that these methods are implemented. Asbestos control provisions in the Air Pollution Control Ordinance require that building works involving asbestos must be conducted only by registered qualified personnel and under the supervision of a registered consultant.

As we are a subcontractor who has possession of a site for the purpose of construction work, we are required to use best practicable means for preventing emission of noxious or offensive emission from the construction sites when works are carried out.

### *Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)*

The Noise Control Ordinance controls, among others, the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime, not being a general holiday, construction noise permits are required from the Director of the Environmental Protection Department in advance.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment (other than percussive piling) in populated areas are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the Director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the Director of the Environmental Protection Department.

## REGULATORY OVERVIEW

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

As a subcontractor, our Group is required to comply with the Noise Control Ordinance in carrying out general construction works, including not to carry out construction activities during restricted hours unless construction noise permits are obtained.

### *Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)*

The Water Pollution Control Ordinance controls the effluent discharged from all types of industrial, manufacturing, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the Director of the Environmental Protection Department.

All discharges, other than domestic sewage to a communal foul sewer or unpolluted water to a storm drain, must be covered by an effluent discharge licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent. The general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters.

According to the Water Pollution Control Ordinance, unless being licensed under the Water Pollution Control Ordinance, a person who discharges any waste or polluting matter into the waters of Hong Kong in a water control zone or discharges any matter, other than domestic sewage and unpolluted water, into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for 6 months and (a) for a first offence, a fine of HK\$200,000; (b) for a second or subsequent offence, a fine of HK\$400,000 and (c) in addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

As our operations may generate waste water, our Group is required to observe and comply with the Water Pollution Control Ordinance in the discharge of the waste water generated from the construction activities.

### *Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)*

The Waste Disposal Ordinance controls the production, storage, collection, treatment, reprocessing, recycling and disposal of wastes. At present, livestock waste and chemical waste are subject to specific controls whilst unlawful deposition of waste is prohibited. Import and export of waste is generally controlled through a permit system.

## REGULATORY OVERVIEW

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, including without limitation the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, construction waste can only be disposed at designated prescribed facilities and a main contractor who undertakes construction work with a value of HK\$1 million or above will be required, within 21 days after being awarded the contract, to establish a billing account in respect of that particular contract with the Director of the Environmental Protection Department to pay any disposal charges for the construction waste generated from the construction work under that contract.

Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of the Environmental Protection Department. A person who except under and in accordance with a permit or authorisation, does, causes or allows another person to do anything for which such a permit or authorisation is required commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, to a fine of HK\$500,000 and to imprisonment for 2 years for a second or subsequent offence, and in addition, if the offence is a continuing offence to a fine of HK\$100,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

As our Group may create significant solid and chemical wastes during and after construction works, we are required to observe and comply with the Waste Disposal Ordinance when we dispose of the wastes.

### *Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)*

The Public Health and Municipal Services Ordinance regulates, among other things, activities that are carried out in Hong Kong that may be considered a nuisance or injurious or dangerous to health, including construction works.

Pursuant to Section 127 of the Public Health and Municipal Services Ordinance, where a nuisance notice is served on the person by reason of whose act, default or sufferance the nuisance arose or continues, or of that person cannot be found, on the occupier or owner of the premises or vessel on which the nuisance exists, then if either the nuisance to which the notice relates arose by reason of the wilful act or default of that person; or that person fails to comply with any of the requirements of the notice within the period specified therein, that person shall be guilty of an offence.

Any person by reason of whose act, default or sufferance the nuisance arose or continues, or if that person cannot be found, the occupier or owner of the premises on which the nuisance exists, who does not observe and comply with the nuisance notice could be held liable, where the premises is found to be in such a state so as to be a nuisance and injurious to health, or where the emission of dust from any building under the construction or demolition is found to be in such a manner so as to be a nuisance, to a fine of up to HK\$10,000 and a daily fine of HK\$200.



## REGULATORY OVERVIEW

Any accumulation of refuse which is a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance. The maximum penalty is HK\$10,000 upon conviction and a daily fine of HK\$200.

As our Group may create dust and may accumulate refuse in the course of and after conducting the passive fire protection works, we are required to observe and comply with the Public Health and Municipal Services Ordinance.

### D. Others

#### *Competition Ordinance (Chapter 619 of the Laws of Hong Kong)*

Effective since 14 December 2015, the Competition Ordinance prohibits and deters undertakings in all sectors from adopting anti-competitive conducts which has the object or effect of preventing, restricting or distorting competition in Hong Kong. It provides for general prohibitions in three major areas of anti-competitive conduct described as the first conduct rule, the second conduct rule and the merger rule.

The first conduct rule prohibits undertakings from making or giving effect to agreements or decisions or engaging in concerted practices that have as their object or effect the prevention, restriction or distortion of competition in Hong Kong. The second conduct rule prohibits undertakings that have a substantial degree of market power in a market from engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. The merger rule prohibits mergers that have or are likely to have the effect of substantially lessening competition in Hong Kong. The scope of application of the merger rule is limited to carrier licences issued under the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Pursuant to Section 82 of the Competition Ordinance, if the Competition Commission has reasonable cause to believe that (a) a contravention of the first conduct rule has occurred; and (b) the contravention does not involve serious anti-competitive conduct, it must, before bringing proceedings in the Competition Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a notice (a "**warning notice**") to the undertaking.

Under Section 67 of the Competition Ordinance, where a contravention of the first conduct rule has occurred and the contravention involves serious anti-competitive conduct or a contravention of the second conduct rule has occurred, the Competition Commission may, instead of bringing proceedings in the Tribunal in the first instance, issue a notice (an "**infringement notice**") to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on condition that the person makes a commitment to comply with requirements of the infringement notice.

"Serious anti-competitive conduct" means any conduct that consists of any of (a) fixing, maintaining, increasing or controlling the price for the supply of goods or services; (b) allocating sales, territories, customers or markets for the production or supply of goods or services; (c) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services; (d) bid-rigging.

## REGULATORY OVERVIEW

In the event of breach of the Competition Ordinance, the Competition Tribunal may make orders including: imposing a pecuniary penalty if satisfied that an entity has contravened a competition rule; disqualifying a person from acting as a director of a company or taking part in the management of a company; prohibiting an entity from making or giving effect to an agreement; modifying or terminating an agreement; and requiring the payment of damages to a person who has suffered loss or damage.

Our Directors are of the view that only the first conduct rule and the second conduct rule of the Competition Ordinance may apply on our Group, the merger rule of the Competition Ordinance does not.

Our Directors confirmed that we had not adopted any anti-competitive conduct described in the Competition Ordinance during the Track Record Period and up to the Latest Practicable Date. Our Group secures most of our projects from customers through tenders which are submitted upon our own commercial decisions. Although, according to the Industry Report, our Group was ranked first for the year ended 30 June 2022 in terms of revenue with a market share of approximately 25.5% of the passive fire protection works market in Hong Kong, our Directors consider that such market share is not, and will not, be regarded as having substantial market power even if our Group successfully expands our market share because the expansion of our Group's business will not result in imposing any barriers to entry or expansion to other services providers and market concentration.

### *Proposed security of payment legislation for the construction industry*

The HK Government has conducted a public consultation on the proposed Security of Payment Legislation ("SOPL") to promote fair payment and help main contractors, subcontractors, consultants, sub-consultants and suppliers to receive payment on time for work done and services provided, so as to improve payment practices and provide rapid dispute resolution.

All contracts and sub-contracts, whether in written or oral form, for (a) government works under which the HK Government and specified public entities procure construction and maintenance activities or related services, materials or plant; and (b) private sector works, under which private entities procure construction activities for new buildings (as defined in the Buildings Ordinance) with a main contract value of over HK\$5 million or procure related services, material or plant or supply-only contracts with a contract value of over HK\$500,000, will be governed by the SOPL. Where the main contract is covered by the SOPL, all subcontracts (irrespective of tier) will be covered by the SOPL regardless of value.

## REGULATORY OVERVIEW

The SOPL will, among others, (a) prohibit "pay when paid" and similar terms in the contracts; (b) prohibit payment periods of more than 60 calendar days for interim payments and 120 calendar days for final payments; (c) enable parties who are entitled to progress payments under the terms of a contract covered by the SOPL to claim such payments as statutory payment claims, upon receipt of which the payer has 30 calendar days to serve a payment response, and parties who are entitled to payments under statutory payment claims will be entitled to pursue adjudication if the statutory payment claims are disputed or ignored; and (d) grant parties the right to suspend or reduce the rate of progress of works after either non-payment of an adjudicator's decision or non-payment of amounts admitted as due.

Since the public consultation on the proposed SOPL for construction industry in June 2015 and the report on public consultation released by the Legislative Council Panel on Development in April 2016, the SOPL bill has yet to be passed by the Legislative Council. However, the Development Bureau published a Circular on Security of Payment Provisions in Public Works Contracts (the "**Circular**") in October 2021, which sets out the policy on the implementation of the spirit of the SOPL in public works contracts with a view to facilitating timely processing of contract payments and providing an interim mechanism for speedy resolution of payment disputes before the enactment of the SOPL. The scope of contracts covered by the Circular includes public works contracts, term contracts and related subcontracts tendered (a) on or after 31 December 2021, for tenders to be invited from Group B or Group C contractors on the List of Approved Contractors for Public Works; and (b) on or after 1 April 2022, for tenders to be invited from other contractors on the List of Approved Contractors for Public Works or the List of Approved Suppliers of Materials and Specialist Contractors for Public Works.

The Circular has the effect of introducing mandatory security of payment provisions into public works contracts. The Circular includes a security of payment framework ("**SOP Framework**") and the four mandatory requirements of the SOP Framework that the parties will not be able to contract out of when the SOPL is implemented are:

- (a) a payment response shall be served by the paying party on the claiming party within 30 days following receipt of a payment claim and the paying party shall make payment of admitted amount within 60 days to the claiming party from the date of payment claim served by the claiming party;
- (b) conditional payment provisions (for example, pay when paid clauses) shall be rendered ineffective and unenforceable;
- (c) claiming party may refer a payment dispute to adjudication through which the adjudicator shall decide on the payment dispute within 55 working days from the date of his/her appointment. The paying party shall then pay the adjudicated amount as decided by the adjudicator; and
- (d) claiming party may exercise a right of suspension or reduce the rate of progress if the admitted amount or adjudicated amount is not received.

## REGULATORY OVERVIEW

Further, two types of securities of payment ("SOP") provisions are incorporated into public works contracts through additional conditions of contract ("ACC") and special conditions of contracts ("SCC") provisions, namely applicable parts of the SOP Framework and other conditions falling outside the SOP Framework. Those of the second category include:

- (a) Mandatory sub-contract conditions – The SOP Framework should be applied to all sub-contracts, including sub-contracts for supplies and service. Contractors are required to ensure the incorporation in all relevant subcontracts at all tiers, confirm this to the contract administrator and produce supporting documentary records. Compliance will also be verified by the Works Department through technical audit of contractors and contract administrators will be subject to spot-checks.
- (b) Direct payment for settlement of unpaid adjudicated amount — a subcontractor claimant may request the employer to make direct payment for settlement of unpaid adjudicated amount under the relevant subcontract which has been incorporated with the SOP provisions by submitting a certified copy of the adjudication together with the documentary proof of performance of work to which the adjudicated amount relates and a declaration by the claimant sub-contractor that the adjudicated amount remains unpaid.

As the ACC and SCC will be incorporated into contracts and sub-contracts for public works projects tendered from 31 December 2021 onwards, it is probable that the SOP Framework will apply to our new public works subcontracts under main contracts which provide for SOP provisions, despite the final legislative framework is to be submitted to the Legislative Council for consideration and approval was still uncertain as at the Latest Practicable Date.

During the Track Record Period, we have not adopted the "pay when paid" clauses with any of our subcontractors. Furthermore, for the years ended 30 June 2020, 2021 and 2022 and the four months ended 31 October 2022, our Group's trade payables turnover days were approximately 22.3 days, 30.9 days, 19.4 days and 17.0 days, respectively, whereas our Group's trade receivables turnover days were approximately 23.9 days, 28.4 days, 22.9 days and 14.3 days, respectively. Based on the above and subject to the terms of the final terms of the SOPL, our Directors believe that our Group will comply with the requirements as set out in the Circular for the applicable public works subcontracts and will ensure that the terms of our upcoming contracts and payment periods with our subcontractors will comply with the proposed legislation in this regard.

### *E. Compliance with the relevant requirements*

Our Directors confirmed that our Group has obtained all relevant permits/registrations/licences for its existing operations during the Track Record Period and up to the Latest Practicable Date.