

BUSINESS

OVERVIEW

We are a contractor in the Hong Kong foundation industry and are principally engaged in the foundation business and machinery leasing business in Hong Kong. As at the Latest Practicable Date, our Group has also been awarded a contract for one private construction project as a subcontractor in Macau. We had completed 30 Major Projects during the Track Record Period and up to the Latest Practicable Date, have 16 Major Projects in progress as at the Latest Practicable Date and had been awarded 2 Major Projects, which are yet to commence as at the Latest Practicable Date. Based on certain industry statistics extracted from the Report on the Quarterly Survey of Construction Output (1st Quarter 2012) of the Census and Statistics Department, Hong Kong government and our Group's construction contracts income for the year ended 31 March 2012, the construction contracts income of our Group for the year ended 31 March 2012 represented approximately 2.5% of the gross value of piling and related foundation works performed by main contractors at construction sites in Hong Kong. This business is generally undertaken by our principal operating subsidiaries, Sunley, Sunnic and Full Gain, as a main contractor or a subcontractor in various construction projects.

The construction works undertaken by us can be broadly divided into (i) foundation works (including bored piles, jacked piles, percussive piles, socketed H-piles, mini-piles, diaphragm wall, footings and pile caps); and (ii) ancillary services (including site formation, site investigation and drilling works), with particular specialisation in piling works. Occasionally, we may also take up projects involving demolition works, excavation and lateral support construction, basement excavation and construction of superstructure. We undertake foundation works related projects in both the public sector, including building and infrastructure related projects, and the private sector, which are mostly building related projects.

During the Track Record Period, income from construction works represented approximately 88.0%, 99.8% and 96.6% of our total revenue for each of the years ended 31 March 2010, 2011 and 2012, respectively. During the Track Record Period, all of our Group's revenue was derived in Hong Kong.

In addition to undertaking construction works, we also lease our unutilised machinery to third party machinery company and contractors. During the Track Record Period, rental income from machinery leasing represented approximately 12.0%, 0.2% and 3.4% of our total revenue for each of the years ended 31 March 2010, 2011 and 2012, respectively.

According to the Hong Kong Annual Digest of Statistics 2011 and the Hong Kong government's budgets 2012/2013, it is estimated that the Hong Kong's public expenditure on infrastructure will grow from approximately HK\$26.4 billion in year 2007–08 to approximately HK\$62.6 billion in year 2012–13. In view of the increasing public expenditure on infrastructure and our registration status with the Development Bureau and Housing Authority, we believe it will create more opportunities for our foundation business, and the current growth prospects for private development projects, our Directors expect that the foundation works available for us will grow steadily.

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The following table sets forth a breakdown of our revenue by activities for the Track Record Period:

	Year ended 31 March					
	2010		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Revenue						
Construction contracts income from TRP Projects	45,148	88.0	250,605	97.3	302,571	96.6
Construction contracts income from the Second Project						
<i>(Note)</i>	—	—	6,398	2.5	—	—
Machinery leasing	<u>6,158</u>	<u>12.0</u>	<u>502</u>	<u>0.2</u>	<u>10,551</u>	<u>3.4</u>
 Total revenue	 <u>51,306</u>	 <u>100</u>	 <u>257,505</u>	 <u>100</u>	 <u>313,122</u>	 <u>100</u>

Note: Revenue from construction works includes the amount of HK\$6,398,000 for the year ended 31 March 2011 being the ultimate total revenues finally yielded by recovery measures from one prior year foundation construction contract which was completed prior to the Track Record Period.

Our Group had certain disputes with a single customer in relation to the First Project and Second Project which were completed in 2001 and 2003 respectively. The disputes in relation to the First Project had financial impacts on our Group's results before the Track Record Period and the disputes in relation to the Second Project had financial impacts on our Group's result before and during the Track Record Period. Save for the disputes in relation to the First Project and Second Project, our Group has no other disputes with its customers which had a material financial impact during the Track Record Period and immediately before the Track Record Period.

During the financial year ended 31 March 2009, the management assessed the possible outcome for the Second Project and our Group recorded a net expense of HK\$11.2 million as provision for claims. In the financial year ended 31 March 2011, as a result of recovery measures, our Group recorded an estimated additional income of HK\$6.4 million and reversed the provision for claims of HK\$11.2 million previously made in the financial year ended 31 March 2009.

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The Second Project had the following financial impact on our Group's combined statements of comprehensive income for each of the year ended 31 March 2010 and 2011:

	Year ended 31 March	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue — construction contracts income from the Second Project	—	6,398
Cost of sales — reversal of provision for claims in relation to the Second Project	—	11,243
Administrative expenses — legal expenses	<u>(1,122)</u>	<u>(11,608)</u>
Impact before taxation	(1,122)	6,033
Taxation	<u>185</u>	<u>(995)</u>
Impact after taxation	<u>(937)</u>	<u>5,038</u>
Profit and total comprehensive income for the year attributable to equity holders of the Company excluding the impact of the Second Project	<u>11,768</u>	<u>30,326</u>

Had the financial impact of the Second Project been excluded from our Group's combined statements of comprehensive income, our net profit would have been approximately HK\$11.8 million and HK\$30.3 million for the years ended 31 March 2010 and 2011 respectively.

COMPETITIVE STRENGTHS

We believe that our competitive strengths will enable us to maintain our position as one of the active contractors in the Hong Kong foundation industry. Our competitive strengths include the following:

Experienced and professional management team and engineering design team

Our management team and engineering design team have extensive industry and technical knowledge in the foundation industry. Most of our senior management staff have over 30 years of experience in the foundation industry and possess the relevant professional qualifications.

Their extensive project management experience and geological knowledge of Hong Kong would facilitate the formulation of competitive yet accurate tenders, which are essential to us in securing new business, and the efficient and timely implementation and management of foundation works.

We believe the combination of our management and engineering design teams' collective expertise and knowledge of the foundation industry, together with our highly qualified employees, have been and will continue to be our valuable assets enabling us to take up difficult or complex projects.

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Possession of a range of updated machinery

Our Directors believe that foundation works, in particular, large diameter bored piling works, are plant intensive and require specialised machinery. We own certain updated bored piles machines that are relatively new, some of which were purchased in or after 2009. Please see the paragraph headed “Machinery” in this section for further information. With a range of updated machinery we have, our Directors believe that we are at a very competitive position in the industry.

Diverse customer base comprising private developers together with their architectural or engineering consultants and main contractors

We have worked with a number of private developers together with their architectural or engineering consultants and main contractors since the commencement of our foundation business and our Directors believe that we have a diverse customer base with various customers from both the public and private sectors. Since Sunley and Sunnic, our principal operating subsidiaries, are on the list of approved contractors of the Works Branch, Development Bureau and Buildings Department for public sector works and private sector works respectively, we have been invited by prospective customers to submit tenders or quotations for foundation works.

Good reputation with a proven track record developed in the foundation industry

We have over 15 years of experience in the Hong Kong foundation industry. Our Directors believe that we have good reputation in the Hong Kong foundation industry with substantial proven track record and have the capability of delivering our job on time and to the satisfaction of our customers. During the Track Record Period and up to the Latest Practicable Date, we have carried out approximately 42 Major Projects involving foundation works.

Flexibility and capability to provide alternative design proposal

With our experienced management team, we are an organisation having the flexibility to make appropriate adjustments to suit each of our customers’ unique requirements and challenges faced in project implementation. Furthermore, our streamlined organisational structure allows us to make decisions in a timely manner instead of going through a bureaucratic approval process that may be time consuming. Our experienced design team has extensive industry knowledge and expertise. In certain “build only” contracts, we may (if permitted by our employer) submit an alternative design proposal which we believe is better in technical terms and/or costs. We believe this gives us an edge over our competitors who do not have this practice and compete primarily on price only. For details of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

BUSINESS STRATEGIES AND PROSPECTS

Our ability to sustain the operating margin and profit is principally influenced by the level of activities in the building and construction industry in Hong Kong and by our ability to submit competitive tenders and to secure contracts.

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In view of the increasing spending by the Hong Kong government on public works projects and the current growth prospects for private development projects mainly due to the Hong Kong government's intention to stabilise the local property market by increasing the supply of both the private residential flats and public rental housing flats, our Directors believe that the value of construction work output in Hong Kong will continue to rise and the foundation works available for us will grow steadily. In particular, the previous administration of the Hong Kong government announced a new policy to resume the Home Ownership Scheme as per the 2011–2012 Policy Address released in October 2011. Under this initiative, the Hong Kong government plans to provide more than 17,000 flats over four years from 2016–2017 onwards, with an annual production of between 2,500 and 6,500 flats. As per the manifesto of the current Chief Executive of the Hong Kong government released in March 2012, the Chief Executive has reiterated the resumption of the Home Ownership Scheme as part of his policy platform. On 4 August 2012, the Secretary for Transport and Housing of the Hong Kong government announced that the new Home Ownership Scheme flats will be available in 2016–2017 at the earliest, and there will be land to provide 17,000 units in the first three to four years according to current planning. Furthermore, the Hong Kong government has unveiled 10 new measures on 30 August 2012 to expedite the sale of subsidised and private residential units to meet public demand. Included in such new measures are (i) a total of 2,650 private flats will be sold in the Government Land Sale Program (October — December) and the Hong Kong government will increase residential land if necessary; (ii) an open space in Cheung Sha Wan will be converted to building 2,300 public rental units; and (iii) 36 government, institution and community sites will be rezoned to provide 11,900 public and private flats. In addition, the Hong Kong government has announced the Ten Major Infrastructure Projects as per the 2007–2008 Policy Address. According to the Hong Kong Annual Digest of Statistics 2011 and the Hong Kong government's Budgets 2012/2013, it is estimated that the Hong Kong's public expenditure on infrastructure will grow from approximately HK\$26.4 billion in year 2007–08 to approximately HK\$62.6 billion in year 2012–13. During the Track Record Period, the majority of our revenue was derived from private projects. In any event, our Group has been awarded a construction project at Kai Tak River in Hong Kong by the Hong Kong government under a joint venture agreement with a construction company who is an Independent Third Party. The project is expected to last from October 2011 to November 2016. Under the joint venture arrangement, our Group is responsible for certain aspects of the project including, inter alia, ground investigation and pipe work, and it is expected that our Group will receive a share of the total contract sum which may be adjusted upward or downward depending on the final assessment of our works. With the expected increase in spending on public works projects and the fact that we are registered contractors eligible for undertaking (i) foundation and site formation works in the public sector under the Development Bureau; (ii) land piling works in the public sector under the Development Bureau; and (iii) large diameter bored piling foundation works of the Housing Authority, our Directors believe there are opportunities for our Group to capture more business in the public sector as our Group's registration status with the Development Bureau and the Housing Authority above indicates our Group will be invited to participate in the tendering of these upcoming public works.

Our Directors believe that our past dealings with Hong Kong government departments or other statutory bodies did not have any adverse impact on our opportunities of participating in future public projects, having regard to: (i) historically we were awarded the Kwai Shing Circuit project which was tendered by the Housing Authority in 2010 and the Kai Tak River project in 2011, and the Kwai Shing project has been completed without dispute; (ii) we can participate in public projects either by entering into construction contracts with Hong Kong government departments or statutory bodies as the main contractor or by working as a subcontractor if we are not awarded of construction contract by Hong

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Kong government departments or statutory bodies; and (iii) save for the contractual disputes in relation to the Second Project, we did not have any material dispute, arbitration or legal proceedings with other customers during the Track Record Period. Having proper and valid registration status with the Development Bureau and Housing Authority, our Directors believe that we will be invited to participate in the tendering of suitable public works and will have equal opportunities to participate in future public projects.

We will continue to play an active role in seeking opportunities in foundation works from the private and public sectors in Hong Kong where Sunley will mainly focus on undertaking foundation works involving the construction of large diameter bored piles while Sunnic will mainly focus on foundation works involving the construction of socketed H-piles, mini-piles, ground investigation field works and building works. We plan to expand our scale by continuing to acquire more advanced machinery and hire more professional staff. In this regard, machinery and equipment including one crawler crane, one oscillator and related accessory equipment for foundation works and building works will be acquired with an aim to increase our Group's capacity. Upon delivery of such machinery and equipment which is expected to take place in the year ending 31 March 2013, additional staff, including one project manager, 4 machinery operators, 10 riggers and two welders are planned to be hired. Our Directors believe that by expanding our scale, we will be able to tender for larger scale foundation projects and broaden our customer base by meeting the pre-qualifications of tenderers set out by the potential customers.

Sunnic has been registered as a registered general building contractor under the Building Ordinance qualified to carry out building works in Hong Kong. Details of our major contracting qualifications and licences are set forth under the paragraph headed "Major qualifications, certifications, awards and compliance" in this section below. However, we have been focusing on foundation related construction projects and we have undertaken and completed only one building work during the Track Record Period. We plan to become more active in pursuing building works in Hong Kong in the future to capture more business opportunities in the construction industry. We consider that certain operating procedures of undertaking building works in Hong Kong are similar to those of the foundation works (such as project identification, tendering, formation of project team, hiring of workers, etc.), and given most of our senior management also possess the relevant experience in building works in Hong Kong, we will be able to tender and handle building works efficiently and cost-effectively.

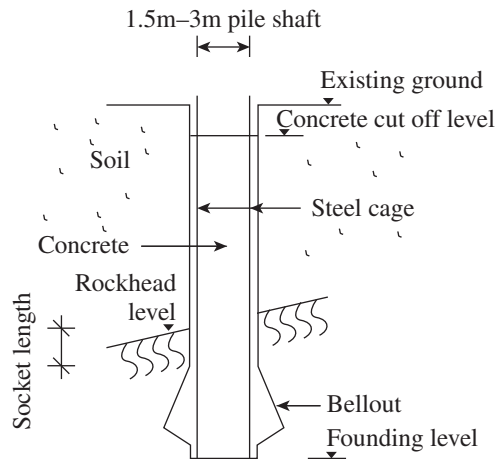
DESCRIPTION OF BUSINESS

The construction works undertaken by us comprise foundation works and ancillary services. The major types of works (with illustrative diagram, where applicable) are set out below:

Foundation works

Bored piles

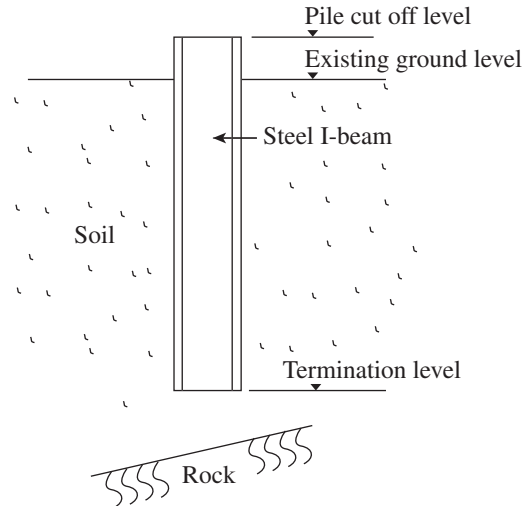
By Grabbing and
Reverse Circulation
Drilling Method



The bored piling works undertaken by us are mainly large diameter bored piles with diameters ranging from 1.5 m to 3 m. They are usually formed and installed by machine boring and grabbing to the required level and subsequently filling the bored hole with reinforced concrete. Normally a steel casing will be used to provide temporary support to the ground during boring operation. Bored piles are a type of “end bearing pile” that reach the underground bedrock layer from which bored piles obtain support to bear the load of the superstructure above. It is common to construct a bell-out at the base of a large diameter bored pile to increase its load bearing capacity.

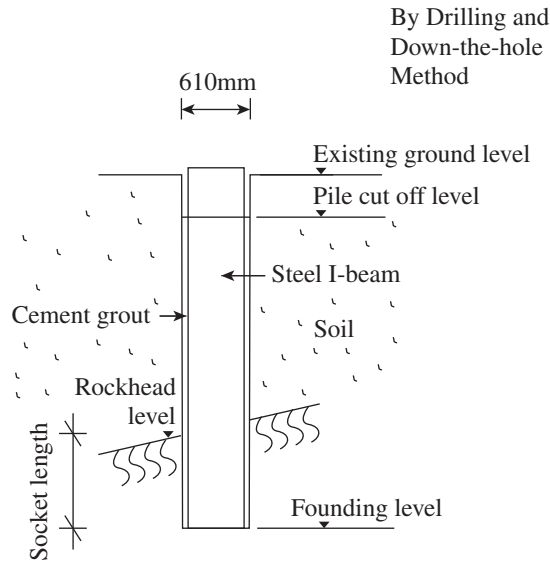
Percussive piles

By Percussive
Method



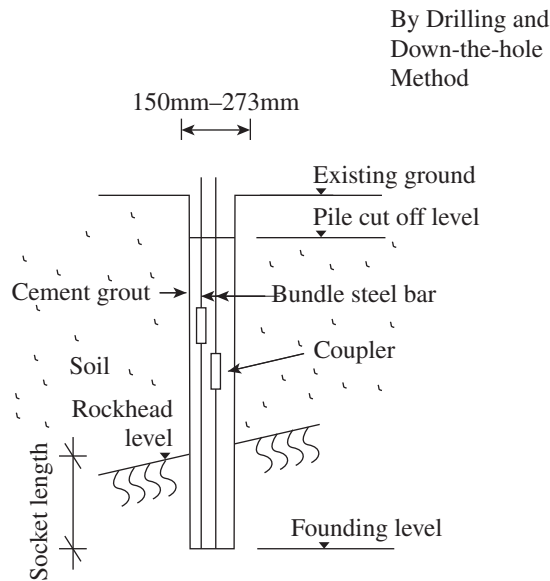
Percussive piling (also known as driven piling) works generally involve the driving of steel H-piles, steel sheet piles, or concrete piles to the required depth by direct or indirect hammering or other percussive means, including by the use of a drop hammer, diesel hammer, double acting hammer, single acting hammer, internal drop hammer, pneumatic hammer, steam hammer or other percussive device. Steel H-piles have been widely used in Hong Kong due to the ease of handling and driving. Percussive piles are a type of “friction pile” that derive the load bearing capacity from the friction between the pile and earth. Due to the percussive nature, this type of piling works creates more noise and vibration and its operation is generally restricted to 3 hours per day in urban areas in Hong Kong. As the size of machinery involved takes up relatively less space, percussive piles are suitable for construction sites with limited space.

Socketed H-piles



Socketed H-piles (also known as pre-bored H-piles) are installed by inserting prefabricated steel H-piles into pre-bored holes (typically about 550 mm in diameter) sunk into bedrock, and subsequently grouting the holes with cementitious materials.

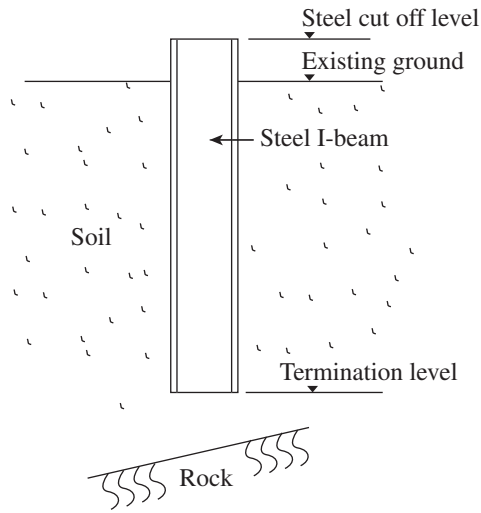
Mini-piles



A mini-pile usually consists of one or more steel bars encased by grout inside a drill hole not exceeding 400 mm in diameter. They are normally designed to be socketed into rock and are mainly used to resist compression or tension loads on sites with difficult access. Steel casing are to be provided to support the pre-drilled hole within the soil and/or fractured rock during drilling operation.

Jacked piles

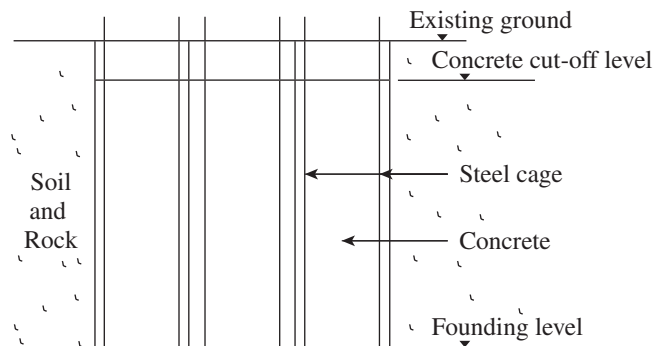
By Pressing Method



Jacked piling is relatively new in Hong Kong. A high capacity (600–1,000 tons) jacking machine clamps a steel H-pile or circular concrete pile and pushes it into the ground. Jacked piles are often deployed as an installation method, with the piles driven to a final set by percussive driving. This is a type of “friction pile” that derives its load bearing capacity from the friction between the pile and earth. Since percussive driving is not required, jacked piles cause relatively less pollution to the environment in terms of noise, air and vibration. However, installation of jacked piles is a relatively slow process compared to other types of piling works.

Diaphragm wall

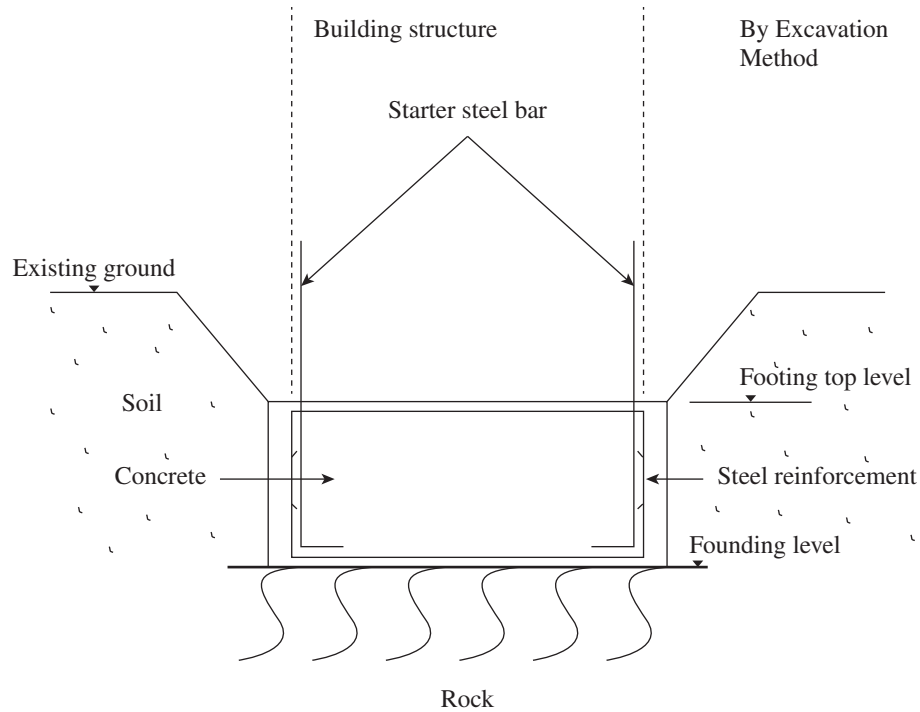
By Grabbing and Chiselling Method



A diaphragm wall is a reinforced concrete wall built to support excavated underground space which typically becomes the basement area of a building (e.g. underground parking for vehicles). Diaphragm wall is a type of construction technique which can be used with a number of the aforementioned piling works. Prior to excavation of earth, trenches are dug along the boundaries of the site to be excavated. Such trenches are filled with bentonite slurry which subsequently becomes the supporting wall when dried. Excavation of the site may then proceed once the supporting wall

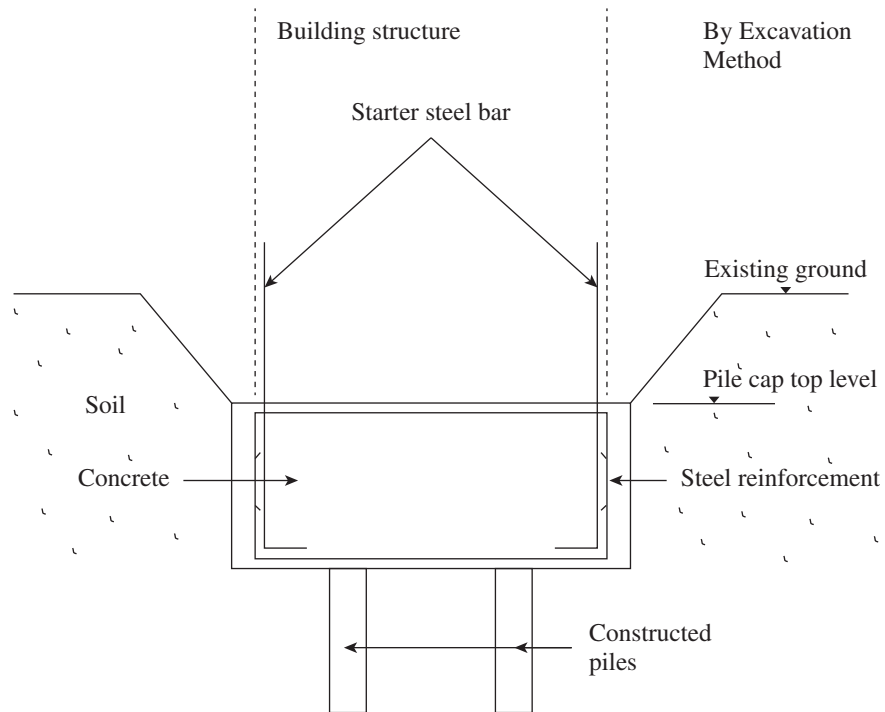
is formed. The supporting walls are prevented from collapsing by the temporary use of horizontal steel struts to support adjacent supporting walls until horizontal basement slabs are built. Once excavation reaches the desired depth, basement works which is suitable for the superstructure to be erected will then take place. A benefit of using diaphragm wall, a comparatively more expensive foundation works, is that construction works related to the basement can be carried out concurrently with construction works related to the superstructure above therefore saving construction time.

Footings



Footing foundation is a type of shallow foundation which transfers building loads to a shallow bedrock layer which is near the ground surface, usually less than two meters below ground. Most of the footings are formed by concrete poured into a trench and constrained by some kind of forms. Functionally, footings are similar to pile caps. However, footings transfer the load directly to the bedrock while pile caps transfer the load onto piles.

Pile caps



Pile caps are concrete structures built on the head of a pile or a group of piles for transmission of loads from the structure above to the pile or group of piles.

Ancillary services

Site formation

Site formation works generally involve the clearance of construction site, demolition of existing structures, excavation to the design formation and/or basement level, reduction and stabilisation of existing slopes, and associated infrastructure works including the construction of road, drainage, sewerage and water works. Site formation works are performed to prepare the construction site for subsequent works for foundation and superstructure.

Site investigation

Site investigation involves the investigation of the physical characteristics of the construction site and includes documentary studies, site surveys and ground investigation, which should be undertaken to provide all the necessary information for the design and construction of foundations. Ground investigation may include any exploratory drilling, boring, excavating and probing of land for obtaining any information on ground conditions and include the installation of instruments, sampling, field testing, or any other site operation and laboratory testing of samples obtained from such operations.

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Drilling works

The drilling works undertaken by us are mainly excavations of dropshafts by our reverse circulation drill for drainage tunnel projects of the Hong Kong government. Generally, these drilling works utilise the same types of machinery used in bored pile works.

We set out below the features of various foundation works and ancillary services undertaken by our Group:

Type of Foundation Works	Advantages	Disadvantages	Applications	Limitations	Cost Features
Foundation Works					
Bored piles	<ol style="list-style-type: none"> 1. Non percussive pile: <ul style="list-style-type: none"> - Low noise - Low vibration - Less disturbance to neighbours 2. High load bearing capacity 3. Can be installed at great depths 	<ol style="list-style-type: none"> 1. Needs relatively wide access for mobilisation of plant 2. Relatively high plant costs 3. Needs rest on designed grade of bedrock which can be very steep and may lead to higher costs 4. Excavated material requires disposal, the cost of which will be high if it is contaminated 	<ol style="list-style-type: none"> 1. High-rise buildings 	<ol style="list-style-type: none"> 1. Not suitable for small site which is difficult for manoeuvring of bored piling plant 	<ol style="list-style-type: none"> 1. Relatively high fixed plant cost
Percussive piles	<ol style="list-style-type: none"> 1. Relatively low cost as it can be rest upon stiff soil irrespective of depth and grade of bedrock 2. Low plant costs 	<ol style="list-style-type: none"> 1. Percussive piles: <ul style="list-style-type: none"> - High noise - High vibration - More disturbance to neighbours 2. operation is restricted to 3 working hours per day in urban areas in Hong Kong 3. Pile section may become damaged during driving 	<ol style="list-style-type: none"> 1. High-rise buildings and podium 	<ol style="list-style-type: none"> 1. Not suitable for site next to sensitive structures or utility installations 	<ol style="list-style-type: none"> 1. Relatively high material cost

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Type of Foundation Works	Advantages	Disadvantages	Applications	Limitations	Cost Features
Socketed H-piles	<ol style="list-style-type: none"> 1. Non percussive pile: <ul style="list-style-type: none"> - Low noise - Low vibration - Less disturbance to neighbours 2. Lower plant costs as compared with bored piles 	<ol style="list-style-type: none"> 1. Needs support in designated grade of rock which can be very steep and deep which in turn increases costs 2. Higher plant costs as compared with percussive piles 3. Risk of loosening soils during pile excavation and causing ground loss and hence settlement 	<ol style="list-style-type: none"> 1. Smaller sized high-rise buildings and podium structures 	<ol style="list-style-type: none"> 1. Not cost effective as compared with large diameter bored piles which can support heavier loads 	<ol style="list-style-type: none"> 1. Lower plant cost as compared to bored piles but higher plant cost as compared to percussive piles 2. Higher material cost as compared to percussive piles
Mini-piles	<ol style="list-style-type: none"> 1. Non percussive pile: <ul style="list-style-type: none"> - Low noise - Low vibration - Less disturbance to neighbours 2. Small size of plant which can be used in small site. Only bamboo platform is required to support plant for pile construction on slopes 	<ol style="list-style-type: none"> 1. Low load bearing capacity 2. Needs support in designated grade of rock which can be very steep and deep which in turn increases costs 	<ol style="list-style-type: none"> 1. Small structures eg. footbridge and temporary working platform on slopes 	<ol style="list-style-type: none"> 1. Not suitable for large structures as its load bearing capacity is relatively low 	<ol style="list-style-type: none"> 1. Relatively low plant and material costs
Jacked piles	<ol style="list-style-type: none"> 1. Non percussive pile: <ul style="list-style-type: none"> - Very low noise - No vibration - No disturbance to neighbours - No dust 	<ol style="list-style-type: none"> 1. Not generally accepted pile type for Buildings Department and requires longer time for approval and consent 2. Jacking machine is very big and requires large relatively flat site for manoeuvring 	<ol style="list-style-type: none"> 1. Structures next to sensitive structures or utilities 2. Structures in or near environmental protection area which restricts vibration and noise level caused during piling works 	<ol style="list-style-type: none"> 1. Not suitable for site needed fast track progress as it requires longer time for approval and consent 2. Not suitable for small site as the jacking machine is very big 3. Not suitable for an uneven site as it requires flat land for manoeuvring 	<ol style="list-style-type: none"> 1. Same material cost to percussive pile but the installation cost is higher because the production rate is slower and the jacking machine is not readily available
Diaphragm Wall	<ol style="list-style-type: none"> 1. Non percussive pile: <ul style="list-style-type: none"> - Low noise - Low vibration - Less disturbance to neighbours 	<ol style="list-style-type: none"> 1. Relatively higher cost as compared with sheetpiles 2. It requires area for set up of bentonite plant 3. The cost of removal of bentonite is relatively high 	<ol style="list-style-type: none"> 1. Basement wall of high-rise building such as commercial office with shopping mall and carpark in the basement 	<ol style="list-style-type: none"> 1. Not suitable for small site as it requires area for set up of bentonite plant 	<ol style="list-style-type: none"> 1. High bentonite set up cost and high bentonite disposal cost

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Type of Foundation Works	Advantages	Disadvantages	Applications	Limitations	Cost Features
Footings	1. Very low cost as piles are not required	1. Noise generated by drilling and breaking of rock causes disturbance to neighbours	1. Buildings at a site where the load bearing bed rock is at a high level	n/a	1. Low plant and labour costs as it requires no special skill
Pile caps	n/a	n/a	1. Transferring the superstructure loadings to underground piles	n/a	1. Low plant cost, mainly labour and material costs
Ancillary services					
Site Formation	n/a	n/a	1. Excavation and filling works to form safe slopes and forming areas for foundation and building works	n/a	1. Low plant cost, mainly labour and material costs
Site investigation	n/a	n/a	1. Rotary core drilling to obtain information of drilled material, i.e. soil, rock and concrete from previous piles	n/a	1. Mainly labour and plant costs
Drilling Works	n/a	n/a	1. Forming a dropshaft to collect underground water	n/a	1. High plant cost as it requires strong and effective drilling machine

MAJOR QUALIFICATIONS, CERTIFICATIONS, AWARDS AND COMPLIANCE

Qualifications in Hong Kong

In order to undertake private sector foundation works as main contractor, the foundation contractor must be registered with the Buildings Department as a registered specialist contractor under the foundation category, unless the main contractor subcontracts those works to an appropriate registered specialist contractor. With respect to public sector foundation works, in addition to the registration with the Buildings Department as a registered specialist contractor under the foundation category, the foundation contractor must be registered with the relevant Hong Kong government departments or public organisations. Details of the above are set forth under the section headed “Laws and Regulations” in this prospectus.

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During the Track Record Period, all of our construction contracts with our customers were generally entered into by Sunley and Sunnic. The following table sets out our major contracting qualifications and licences:

Relevant Hong Kong government departments or public organisation	Description	Category	Qualification	Holder	Period of validity (Note)
Works Branch, Development Bureau	List of Public Works Contractors	Land Piling	Specialist List Group II	Sunley	—
			— Large Diameter Bored Pile (with bell-out) — Minipile — Precast Prestressed Tubular Pile (PPTP) — Rock-socketed Steel H-pile in Pre-bored Hole — Steel H Pile		
			Specialist List Group II	Sunnic	—
			— Minipile — Rock-socketed Steel H-pile in Pre-bored Hole — Steel H Pile		
Housing Authority	Works managed by Housing Authority	Large Diameter Bored Piling Category	List of Piling Contractors (Large Diameter Bored Piling Category)	Sunley	—
Buildings Department	Private sector works	Building	Registered General Building Contractors	Sunnic	16 September 2011 to 20 October 2014
			Foundation Works	Sunley	11 October 2011 to 14 December 2014
			Sunnic	30 November 2011 to 14 December 2014	
		Site Formation	Sunley	8 July 2009 to 9 July 2015	
			Sunnic	30 December 2011 to 26 January 2015	
		Ground Investigation Field Works	Registered Specialist Contractors	Sunnic	29 July 2011 to 11 August 2014
Construction Industry Council			Registered under the Voluntary Subcontractor Registration Scheme	Sunley	31 March 2011 to 30 March 2013
				Sunnic	7 October 2010 to 6 October 2012*

Note: “—” denotes not subject to any periodic renewal condition

* Sunnic plans to renew the license before expiry date in due course.

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We have maintained compliance with the respective licences, permits, registrations, and relevant regulatory requirements in respect of safety, environmental and insurance in the construction industry. The expected time to complete the renewal process is generally around 1 to 2 months and our Group intends to renew all existing licenses accordingly before their respective expiry date. We plan to renew all existing licenses and will renew our licences before their respective expiry dates and we have not experienced any refusal of renewal of the licences necessary for our operations during the Track Record Period and up to the Latest Practicable Date. Our Directors also do not expect any difficulty or legal impediment in obtaining the renewal licences.

Certifications

The following table sets out our major certifications:

Nature	Certification (Note i)	Awarding organisation or authority	Recipient	Period of validity (Note ii)
Quality Management System Accreditation	ISO 9001:2008	Bureau Veritas Certification Hong Kong Limited	Sunley	21 October 2011 to 20 October 2014
		SGS Hong Kong Limited/ SGS United Kingdom Limited	Sunnic	19 January 2010 to 24 January 2015
		OHSAS 18001:2007	Bureau Veritas Certification Hong Kong Limited	Sunley
Environment Management System Accreditation	ISO 14001:2004	Bureau Veritas Certification Hong Kong Limited	Sunley	21 October 2011 to 20 October 2014
		SGS Hong Kong Limited	Sunnic	5 December 2009 to 4 December 2012#

Note:

(i) The scope of the certificates cover the below standard:

ISO 9001:2008	—	Management System of the design and construction of driven h-pile, jack-in h-pile, large diameter bored pile (with bell-out), mini pile, driven prestressed precast concrete pile, pre-bored h-pile, pile cap, hand-dug caisson and diaphragm wall/barrette
OHSAS 18001:2007	—	Management System of the design and construction of driven h-pile, jack-in h-pile, large diameter bored pile (with bell-out), mini pile, driven prestressed precast concrete pile, pre-bored h-pile, pile cap, hand-dug caisson and diaphragm wall/barrette
ISO 14001:2004	—	Environmental Management System of the design and construction of driven h-pile, jack-in h-pile, large diameter bored pile (with bell-out), mini pile, driven prestressed precast concrete pile, pre-bored h-pile, pile cap, hand-dug caisson and diaphragm wall/barrette

(ii) Subject to the continued satisfactory operation of the recipients' management system and surveillance audits.

* Recertification audit has been completed on 8 September 2012 and the renewed certificate will be issued in due course.

Recertification audit will be conducted after 26 October 2012.

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Awards and recognition

The following table sets out our major non-recurring awards and recognition obtained by us:

Year(s) of award	Nature	Recipient	Award	Awarding organisation or authority
2011	Safety	Sunnic	Construction Industry Safety Award Scheme for the period 2010/2011 — Meritorious Prize in the Buildings sites — (Sub-contractors category)	Labour Department
2007	Safety	Sunnic	Champion of Safety Subcontractor of 3rd Quarter 2007	Hanison Contractors Limited

Furthermore, Sunnic's performance ratings, as reported by the Works Branch under its quarterly contractor's performance rating reports and represent a contractor's performance in Government works contracts, were the highest among all the contractors under the Land Piling category of the Specialist List for 17 consecutive quarters since the second quarter of 2007 up to and including the second quarter of 2011. Such performance rating reports take into account various factors such as safety, environmental and quality of works.

Compliance

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all the approvals, permits, consents, licences and registrations required for our business and operations in Hong Kong and all of them are in force. It is the opinion of the Macau Legal Adviser that the operation mode of the construction project to be carried out by Sunley in Macau is valid and complies with the laws in Macau.

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Between 2000 and 2005, our Group had been convicted of a number of offences for breach of statutory provisions in Hong Kong relating to, inter alia, health and safety in construction site, air and water pollution, failure to give prior notice to relevant authority for notifiable work and was subject to fines. Our Group had fully settled these fines imposed by the Hong Kong government. Set out below are the details of those offences:

Item	Nature	No.	Fine Amount (HK\$)
1.	Failed to ascertain underground electrical cable alignment and depth before commencement of works.	2	8,000.00
2.	Failed to ensure machineries are safely guarded.	1	5,000.00
3.	Failed to provide safe system of work in relation to bore piling work and operation of excavator.	1	8,000.00
4.	Failed to give prior notice under the Air Pollution Control Regulation before commencement of works.	1	15,000.00
5.	Failed to comply with the Air Pollution Control Regulation in relation to construction dust.	1	10,000.00
6.	Failed to prevent person from falling from a height of 2 meters or more.	2	20,000.00
7.	Discharging suspended solid exceeding limit permitted under the license granted pursuant to the Water Pollution Control (General) Regulation.	1	40,000.00
8.	Failed to ensure safe access to and egress from the place of work.	2	<u>50,000.00</u>
Total:			<u><u>\$156,000.00</u></u>

The above actions were criminal offences contrary to the respective statutory provisions and were charged by the Hong Kong government either through its departments and/or the Secretary of Justice. On the other hand, those litigation, arbitration and potential claims involved by our Group during the Track Record Period and up to the Latest Practicable Date as set out in the paragraph headed “Litigation, arbitration and potential claims” of this section were civil actions which were and/or have been and/or may be commenced by injured employees and/or company. Our Directors confirmed that save for the pending litigation as mentioned below in relation to charges laid by the Labour Department in connection with the accident that occurred in March 2012 which has not resulted in conviction as at the Latest Practicable Date, after 2005 and up to the Latest Practicable Date, there was no statutory breaches and/or criminal convictions of our Group for which the Directors or senior management of our Group were/would be held liable.

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Our Group has put in place various measures to minimise our risk in breaches of statutory provisions. These measures implemented by our Group include (i) implementation of “*Safety Rules*” to all construction sites; (ii) provision of training sessions to all employees of our Group and sub-contractors of all tiers; and (iii) deployment of site staff to conduct regular site inspections to ensure compliance with statutory provisions. Furthermore, in 2005 our Group engaged a safety, health, environment and quality consultant company with consultants who have registered as safety officers and approved by the Commissioner for Labour Department, pursuant to the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations (Cap. 59). The consultant company have provided a competent person to (a) conduct underground utility detection report(s); (b) provide detection equipment, (c) conduct site visit and survey and (d) prepare and endorse cable detection report(s), etc. The consultant company also provided a safety officer to (1) maintain site safety, (2) assist in (i) preparing risk assessment, (ii) conducting safety inspection, (iii) providing safety training, (iv) preparing safety plan, (v) conducting accident report and (vi) following up with the Labour Department for safety issues. During the Track Record Period, our Group has not been charged for committing any offence. Going forward, we will continue to adhere to these measures to prevent future breaches of statutory provisions. Our Directors believe the engagement of the consultant company in 2005 contributed to our Group’s record of no statutory breaches after 2005 (save for the pending litigation mentioned below).

Our Group had received two summonses both dated 30 August 2012 for respective charges laid by the Labour Department alleging our Group’s failure (i) to provide such information and supervision as was necessary to ensure, so far as was reasonably practicable, the health and safety at work of the person(s) employed by us at the industrial undertaking; and (ii) to provide and maintain a system of work on supporting the reinforcement cage by wedges that were, so far as was reasonably practicable, safe and without risks to the health of the person(s) employed by us at the industrial undertaking, contrary to the Factories and Industrial Undertakings Ordinance (Cap. 59) of the laws of Hong Kong. Both charges relate to an accident occurred on 5 March 2012. Other than two summonses, since 2005 and up to the Latest Practicable Date, there are no other criminal charges against our Group. Further, our legal advisor as to litigation in Hong Kong advised that our Group’s director or senior management will not be charged or liable for the accident.

Both charges relate to an accident that occurred on 5 March 2012 concerning bored piles works that resulted in injuries to four of our Group’s employees. The accident occurred when our Group’s workers were placing a reinforced-bar cage into a borehole, during which the reinforced-bar cage suddenly fell down and one of the worker’s hand was torn off, while the other three workers suffered from minor injuries. As far as the Directors are aware and as concurred by the Sponsor, the specific procedure adopted by our Group has been a widely adopted industry practice for many years. The exact cause for the reinforced-bar cage to fall suddenly is still unknown and the conclusion of the investigation submitted to Labour Department which was conducted by the safety officer assigned by the consultant company indicates the case to be an accident. The Labour Department has temporarily suspended the specific procedure at the construction site immediately after the accident on 5 March 2012. Subsequent to the accident, our Group has, together with the Labour Department and the consultant company, worked out a revised method to carry out the relevant procedure. The Labour Department has approved the revised method and consented to the resumption of this procedure on 23 April 2012. Such revised method has also been applied by our Group to all of our current construction sites (where applicable).

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No pleas have been taken for both summonses as at the Latest Practicable Date as our Group's first appearance at the Magistrates' Court will be held on 27 September 2012. As advised by our Group's legal advisor as to litigation in Hong Kong, the first appearance is for our Group to take plea. Upon our Group pleading not guilty (as mentioned below) at the first appearance, the Court will either fix a date for the pre-trial review and/or hearing (as the case may be), or order our Group to return to the Court on another date for the purpose of fixing the date of the pre-trial review and/or hearing (as the case may be). Accordingly, verdict and/or ruling will not be given by the Court at the first appearance. As further advised by our Group's legal advisor as to litigation in Hong Kong, the usual procedures for charges under the Factories and Industrial Undertakings Ordinance (Cap. 59), will involve a pre-trial review (at the discretion of the Court and within one month after first appearance) followed by a trial hearing involving expert as well as factual witnesses, which is fixed approximately three months after the pre-trial review. Accordingly our Group's legal advisor as to litigation in Hong Kong estimates the hearing will be held in or about early 2013. Since our Group believes that it had, so far as reasonably practicable, provided safe environment to all its workers working on site, our Group will resist both charges. However, in case our Group is unsuccessful and convicted, our legal advisors as to litigation in Hong Kong advised that the maximum criminal liability will be subject to an overall fine of HK\$1,000,000 based on the maximum fine of HK\$500,000 per charge as set out in section 6A(3) of the Factories and Industrial Undertakings Ordinance (Cap. 59). Our Controlling Shareholders have entered into a deed of indemnity with and in favour of our Group to provide indemnities on a joint and several basis in respect of, among other matters, all claims, payments, suits, damages, settlements payments and any associated costs and expenses which would be incurred or suffered by our Group as a result of these two outstanding criminal proceedings. The amount of our Group's civil liabilities arising out of the same accident cannot be ascertained since no proceedings have been commenced as at the Latest Practicable Date. However, even if such proceedings are commenced, the amount claimed will be covered by insurance. The potential liability had been included as potential claims as set out in the paragraph headed "Litigation, arbitration and potential claims" under this section.

Our Group further confirms that, based on our past experience, no legal impediment on our Group's future license renewal and/or bidding for future public sector works is expected even if we are convicted under both charges. Our legal adviser as to litigation in Hong Kong also confirms that there will be no legal impediment to our Group's future license renewal and/or bidding for future public sector works even if we are convicted under both charges. The Development Bureau and the Housing Authority govern the contractor matters relating to public sector works.

As far as the Development Bureau is concerned, paragraph (b) of its "Technical Circular (Works) No. 3/2009" is relevant to convictions and it states that, regulatory actions may be considered if the contractor has been convicted of five (5) or more site safety offences counted by the date of commission and not the date of conviction, each arising out of separate incidents in any six (6) month period, committed by the contractor on a construction site or construction sites under the same contract. Since our Group has a clear record of conviction for the preceding seven years, even if we are convicted under both charges, we still would not fall within the ambit of paragraph (b) and the related regulatory actions will not be commenced against our Group.

As far as the Housing Authority is concerned, section 4.4 and paragraph 4 of Annex 5 of the HA's "Guide to Registration of Works Contractors and Property Management Services Providers" are relevant to convictions and they only concern contraventions of the Factories and Industrial Undertakings Ordinance (Cap 59) arising out of Housing Authority contracts. Since the accident did not occur on a site arising out of Housing Authority contracts, the related regulatory actions will not be commenced against our Group by the Housing Authority.

Based on the above there will be no legal impediment on our Group's future license renewal and/or bidding for future public sector works due to these two charges. Our legal advisors as to litigation in Hong Kong advised that, in view of (i) paragraph (b) of Development Bureau's "Technical Circular

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(Works) No. 3/2009” which is relevant to convictions; and (ii) that our Group has a clear record of conviction for the preceding seven years, it is of the view that in so far as the present charges are concern, there is no impact on our Group’s existing license.

Our Directors confirm that save as disclosed above, our Group (including its predecessor companies) has not committed any offences, bribes violations or breaches of laws or regulations in all jurisdictions where it operates.

CONSTRUCTION WORKS

During the Track Record Period, the construction works undertaken by us were mostly building related public or private sector foundation projects. The lengths of our foundation projects were usually less than 12 months, depending on the size of the contract and the complexity of the works undertaken. Our foundation projects sometimes involve a mixture of different foundation types.

Projects completed

The following table sets out the details of the Major Projects completed by us during the Track Record Period and up to the Latest Practicable Date:

Our Group as a main contractor:

Location of project	Type of works	Project Category	Subsidiaries of our Group involved	Construction period	Type of contract	Contract Sum (HK\$M)
Leighton Road, Causeway Bay	Design and construction of foundation works	Private	Sunley	December 2009 – November 2010	Design and build	18.2
Des Voeux Road West	Bored piles and channeling, pile caps, excavation and lateral support construction	Private	Sunley	January 2010 – October 2010	Design and build	21.8
Chung Hom Kok Road	Site formation and foundation works	Private	Sunnic	February 2009 – May 2010	Design and build	22.0
Kwai Shing Circuit	Footing and pile caps	Public	Sunley, Sunnic and Full Gain	November 2010 – August 2011	Build only	39.4
12 Mount Kellett Road	Site formation, footing, mini-piles, excavation and lateral support construction and pile caps	Private	Sunnic and Full Gain	February 2009 – November 2010	Design and build	68.0
Cheung Sha Wan	Bored piles	Private	Sunley	July 2011 – December 2011	Build only	18.5
Bonham Strand	Bored piles, excavation and lateral support and pile caps	Private	Sunley, Sunnic and Full Gain	March 2011 – March 2012	Design and build	32.6
Warren Street	Bored piles and pile caps	Private	Sunley	April 2011 – May 2012	Design and build	27.8
59 Mount Kellett Road	Ground investigation, demolition, site formation, mini-piles and pile caps	Private	Sunnic and Full Gain	August 2010 – March 2012	Design and build	34.3
72 Mount Kellett Road	Superstructure	Private	Sunnic	March 2011 – June 2012	Build only	49.0
Tung Lo Wan Road	Bored piles	Private	Sunley and Sunnic	December 2011 – July 2012	Build only	7.1
Tung Chung Town	Trial piles for driven steel tubular piles	Private	Sunnic	May 2012 – July 2012	Build only	5.4
Wetland Park	Trial piles	Public	Sunley and Sunnic	March 2012 – August 2012	Build only	9.3
						353.4

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Our Group as a subcontractor:

Location of project	Type of works	Project Category	Subsidiaries of our Group involved	Construction period	Type of contract	Contract Sum (HK\$M)
Lee Chung Street, Chai Wan	Bored piles	Private	Sunley	October 2008 – April 2009	Build only	11.8
Upper Lam Tsuen, She Shan & Tai Po River	Mini-piles and socketed H-piles	Public	Sunnic and Full Gain	May 2008 – October 2010	Build only	11.4
Lam Tin	Socketed H-piles	Public	Sunnic and Full Gain	January 2010 – August 2010	Design and build	22.6
Tin Shui Wai	Socketed H-piles	Public	Sunley, Sunnic and Full Gain	February 2010 – September 2010	Design and build	36.5
Bonham Road	Bored piles	Private	Sunley and Sunnic	May 2009 – October 2009	Design and build	27.3
Jaffe Road & Marsh Road, Wan Chai	Bored piles	Private	Sunley	May 2009 – October 2009	Build only	6.5
Gloucester Road and Marsh Road	Bored piles	Private	Sunley	November 2009 – May 2010	Build only	9.1
West Drainage Tunnel	Dropshafts excavation which involved bored piles techniques	Public	Sunley, Sunnic and Full Gain	December 2009 – January 2011	Build only	20.1
Kai Tak Cruise Terminal	Percussive piles	Public	Sunnic and Full Gain	October 2010 – July 2011	Build only	10.0
Sheung Shui	Bored piles	Private	Sunley	December 2010 – February 2011	Build only	12.6
Kowloon Exit of Western Harbour Crossing	Mini-piles	Private	Sunnic and Full Gain	January 2010 – February 2011	Build only	12.0
Tai Ho Road	Socketed H-piles	Public	Sunnic	July 2009 – January 2011	Build only	12.8
Wo Hop Shek, Fanling	Socketed H-piles	Public	Sunnic and Full Gain	March 2010 – November 2010	Design and build	29.3
Fung Yuen	Bored piles, socketed H-pile and jacked piles	Private	Sunley, Sunnic and Full Gain	August 2010 – November 2011	Build only	142.0
Lan Kwai Fong	Bored piles, excavation and lateral support and pile caps	Private	Sunley and Sunnic	August 2011 – May 2012	Design and build	39.2
Castle Peak Road	Bored piles	Private	Sunley	October 2011 – February 2012	Build only	10.0
Caritas Medical Centre	Socketed H-pile	Public	Sunnic and Full Gain	November 2011 – August 2012	Build only	9.5
						422.7

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Projects in progress as at the Latest Practicable Date

As at the Latest Practicable Date, the aggregate contract value of our projects in progress amounted to approximately HK\$2,030.1 million (including the total contract sum of Kai Tak River Project which is under a joint venture agreement, see note (ii) in the table below). The following table sets out the details of our Major Projects in progress as at the Latest Practicable Date:

Our Group as a main contractor:

Location of project	Type of works	Project Category	Subsidiaries of our Group involved	Expected construction period according to contract	Percentage of work certified as at the Latest Practicable Date <i>(note i)</i>	Type of contract	Contract Sum <i>(HK\$M)</i>
Bonham Strand West & Wing Lok Street	Bored piles, excavation and lateral support and pile caps	Private	Sunnic and Full Gain	August 2011 – November 2012	13%	Design and build	40.3
Connaught Road Central	Percussive piles excavation and lateral support and pile caps	Private	Sunnic and Full Gain	September 2011 – October 2012	51%	Design and build	24.8
Kai Tak River	Steel pipe pile and drainage	Public	Sunnic	October 2011 – November 2016	11%	Build only	818.0 <i>(note ii)</i>
Catchick Street	Percussive piles and pile caps	Private	Sunnic	February 2012 – October 2012	52%	Design and build	16.1
Goldsmith Road	Site formation, socketed H-piles and pile caps	Private	Sunnic and Full Gain	March 2012 – November 2012	59%	Design and build	25.9
Tsun Yip Street <i>(note iii)</i>	Bored piles	Private	Sunley	December 2011 – June 2012	95%	Build only	37.6
Shan Kwong Road	Bored piles, excavation and lateral support construction	Private	Sunley	April 2012 – September 2013	13%	Build only	49.8
Yuen Long Town Lot	Bored piles, pile caps, excavation and lateral support construction	Private	Sunley	August 2012 – January 2014	— <i>note (iv)</i>	Build only	661.0
Lin Fa Kung Street	Pile caps, excavation and lateral support construction	Private	Sunnic and Full Gain	September 2012 – April 2013	— <i>note (iv)</i>	Build only	24.2
Tan Kwai Tsuen Road	Design, construction of foundation and site formation	Private	Sunnic and Full Gain	September 2012 – August 2013	1.7%	Design and Build	106.9
Fui Yiu Kok Street	Demolition	Private	Sunnic	September 2012 – January 2013	— <i>note (iv)</i>	Build only	5.2
59 Mount Kellett Road (Superstructure)	Superstructure	Private	Sunnic	September 2012 – August 2013	— <i>note (iv)</i>	Build only	48.0
							1,857.8

Notes:

- (i) The percentage of work certified is based on the certificates issued by our Group's customer on the respective projects. It represents the amount of works certified as a percentage of the original contract value.

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- (ii) Our Group has been awarded a construction project at Kai Tak River in Hong Kong by the Hong Kong government under a joint venture agreement with a construction company. Under the joint venture arrangement, our Group is responsible for certain aspects of works including, inter alia, ground investigation and pipe work, and it is expected that our Group will receive a share of the total contract sum which may be adjusted upward or downward depending on the final assessment of our works. Accordingly, our share of the contract sum cannot be determined at the moment.
- (iii) The project has been delayed and it is expected to complete in September 2012 as our Group has accepted additional variation order request from the employer.
- (iv) Works for these projects have commenced but such works have not been certified as at the Latest Practicable Date.

Total contract sum of the above Major Projects is approximately HK\$1,857.8 million, with approximately HK\$176.6 million of which certified as completed as at the Latest Practicable Date. Save as disclosed in note (iii) above, as at the Latest Practicable Date, our Directors expect the completion dates of the above Major Projects will fall within the contract period.

Our Group as a subcontractor:

Location of project	Type of works	Project Category	Subsidiaries of our Group involved	Expected construction period according to contract	Percentage of work certified as at the Latest Practicable Date <i>(note i)</i>	Type of contract	Contract Sum <i>(HK\$M)</i>
Electric Road	Bored Piles	Private	Sunley	July 2012 – October 2012	8%	Build only	9.7
Gordon Road	Bored Piles	Private	Sunley	August 2012 – November 2012	39%	Build only	7.2
Lee Kung Street	Bored Piles	Private	Sunley	August 2012 – October 2012	— <i>(note ii)</i>	Build only	16.4
Tung Chau Street	Percussive piles	Private	Sunnic & Full Gain	July 2012 – January 2013	— <i>(note ii)</i>	Build only	139.0
							172.3

Notes:

- (i) The percentage of work certified is based on the certificates issued by our Group's customer on the respective projects. It represents the amount of works certified as a percentage of the original contract value.
- (ii) Works for these projects have commenced but such works have not been certified as at the Latest Practicable Date.

Total contract sum of these Major Projects is approximately HK\$172.3 million, with approximately HK\$3.6 million of which certified as completed as at the Latest Practicable Date. As at the Latest Practicable Date, our Directors expect the completion dates of the above Major Projects will fall within the contract period.

We normally receive progress payment from customers on a monthly basis and occasionally on a milestone basis with reference to the value of works done. In general, we submit an interim payment application to our customers on a monthly basis according to the amount of works completed during the month. Once we have submitted a monthly application for interim payment, the authorised person, such as the architects or quantity surveyors employed by the customers, would issue a progress certificate certifying the works progress in the preceding month. It normally takes about twenty-one to thirty days

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for such certificates to be issued. Upon the issue of the certificate, the customer is deemed to have an obligation to pay our Group the amount certified less retention money. Thus, generally no invoice is billed by our Group which is a general industry practice. For certain private customers, our Group may, at the customer's request, issue a debit note or invoice based on the progress certificate issued. The portion of total contract revenue that is certified to have been completed in a period is recognised as revenue of our Group in the respective period.

Project awarded but not commenced as at the Latest Practicable Date

As at the Latest Practicable Date, the aggregate contract value of our project awarded but not commenced amounted to approximately HK\$100.5 million. The following table sets out the details of our Major Project awarded but not commenced as at the Latest Practicable Date:

Our Group as subcontractor

Location of project	Type of works	Project category	Subsidiaries of our Group involved	Expected construction period according to contract	Type of contract	Contract Sum (HK\$M)
Studio City, Macau*	Bored piles	Private	Sunley	June 2012 – October 2012	Build only	88.5
Des Voeux Road Central**	Bored piles	Private	Sunley	August 2012 – December 2012	Design and Build	<u>12.0</u>
						<u><u>100.5</u></u>

* The project has not commenced as relevant approval from the Land, Public Works and Transport Bureau of Macau is yet to be obtained.

** The commencement date of the project has not been fixed with the main contractor.

With regard to the project named Studio City, Macau (the “**Studio Project**”), in order to carry out civil engineering project in Macau, a person who obtained the land use rights of a land and being the only applicant under the law must obtain the approval for construction works from the Land, Public Works and Transport Bureau of Macau before commencement of construction of new building(s). The person who obtained the land use rights of the land (the “**Lessee**”) of the Studio Project submitted the construction works plan to, and applied for the necessary licence(s) from, the Land, Public Works and Transport Bureau of Macau. As at the Latest Practicable Date, the relevant approval from the Land, Public Works and Transport Bureau is yet to be obtained. Accordingly, Sunley being the sub-sub-contractor is not required to apply for the necessary licence(s) and possess the qualifications as required under the laws and regulations of Macau for the construction works of the Studio Project. As advised by the Macau Legal Adviser, it is legal and valid for Sunley to take part in the piling works for the Studio Project when it performs its obligations in accordance with the sub-sub-contract with the subcontractor of the Studio Project including carrying out the works in accordance with the approved construction works plan for such project and sending workers with such qualifications as stipulated in the sub-sub-contract to work for such project.

The sub-sub-contract signed between Sunley and the subcontractor of the Studio Project is subcontracting in nature, and it is subordinated to the main contract entered into by the Lessee and its main contractor. Accordingly, the prerequisite for the existence of the sub-sub-contract is the existence of the main contract; and the subsistence and validity of the sub-sub-contract will be directly affected by the subsistence and validity of the main contract. In the event the Lessee's application for the approval

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of the construction works plan is not accepted by the Land, Public Works and Transport Bureau, the sub-sub-contract signed by Sunley with the subcontractor will cease to have effect. The Macau Legal Adviser has advised that in such event, Sunley should not be held liable for any damages or compensation as there is no default on the part of Sunley. Under the contractual arrangement in respect of the Studio Project between the main contractor, the subcontractor and Sunley, the main contractor is responsible for assisting Sunley to apply for the necessary working permits for Sunley's employees who are instructors and will station in Macau for the Studio Project. The Macau Legal Adviser has advised that such contractual arrangement is legal and valid under Macau law.

As the approval for the construction works of the Studio Project is still under consideration, the commencement of construction works and application for other certification documents are pending.

SALES AND MARKETING AND CUSTOMERS

Sales and marketing

The majority of the projects undertaken by us are awarded by way of tender. In this connection, we maintain good relationships with our customers, and have regular contacts with private sector developers, architects and other consultants in the construction industry to keep us abreast of market development and potential business opportunities. We also closely monitor forecasts for Hong Kong government works and public tender notices. Since works undertaken by us are generally awarded by way of tender, we are of the view that past job reference, relationship with customers and our network in the industry are assets valuable to us in assisting us in winning future tenders. Other marketing undertaken by our Group includes putting up banners and/or signages displaying the names and logos of Sunley or Sunnic at construction sites. Our Group currently does not intend to focus and carry out marketing activities in Macau. However we will consider any business opportunities in Macau if we are invited to submit tender for projects in Macau.

We do not maintain a team of sales and marketing staff. Instead, the marketing works are mainly conducted by our executive Directors. For instance, our Directors and senior management may, from time to time, arrange social engagements such as luncheons or ground breaking ceremonies to maintain relationship with our customers. Mr. Ho, one of our executive Directors, maintains his profile in the foundation industry mainly through participating in seminars as speaker and leading site visits for Hong Kong university students. From time to time, we may also send out request to prospective clients in respect of application to become an approved contractor for participation in tendering of future construction projects.

Customers

Our ultimate customers are divided into two categories: (a) public sector including the Hong Kong government and its related organisations and institutional bodies including the Housing Authority; and (b) private sector.

- *Public sector*

Some of our construction works in the public sector are undertaken by us as a subcontractor via the administration of a general works main contractor. In such cases, the relevant Hong Kong government department or the Housing Authority will enter into a main contract with the general works

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main contractor of the subject project which specifies, among other things, that the main contractor shall enter into a subcontract with a construction contractor with the requisite registrations. We will then enter into a subcontract with the main contractor and accordingly, the Hong Kong government or the Housing Authority will be the employer of the project as well as our ultimate customer, while the main contractor is our direct customer.

In other cases, we may directly enter into a main contract with the Hong Kong government department or the Housing Authority for the relevant construction works so that the Hong Kong government or the Housing Authority will become the employer of the project as well as our direct customer.

- *Private sector*

On the other hand, we also engage in private sector projects. Our private sector customers mainly include property developers in Hong Kong or their main contractors of the subject projects. We have one customer in Macau which is a contractor.

During the Track Record Period, our five largest customers accounted for approximately 100.0%, 55.0% and 56.3% of our revenue, respectively; and our largest customer accounted for approximately 46.0%, 27.9% and 15.2% of our revenue, respectively. We have not entered into any long-term master contracts with any of these customers.

The followings set out the profile of the top five customers during the Track Record Period.

Year ended 31 March 2010

Name of customer	Approximate percentage to the total turnover of our Group (%)	Year of business relationships	Principal business
Sunnic	46	12	Contractor
Customer A	35	3	Contractor
Customer B	12	4	Machinery Company
Customer C	5	3	Religious Organization
Customer D	2	2	Developer

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Year ended 31 March 2011

Name of customer	Approximate percentage to the total turnover of our Group (%)	Year of business relationships	Principal business
Customer E	28	2	Contractor
Customer F	8	2	Construction
Customer G	8	2	Developer
Customer C	6	3	Religious Organisation
Customer H	5	3	Developer

Year ended 31 March 2012

Name of customer	Approximate percentage to the total turnover of our Group (%)	Year of business relationships	Principal business
Customer E	15	2	Contractor
Customer G	12	2	Developer
Customer I	11	1	Contractor
Customer J	10	1	Developer
Customer K	8	2	Developer

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The following table sets forth our number of customers and revenue attributable to each role, ie. main contractor and subcontractor of customers during the Track Record Period:

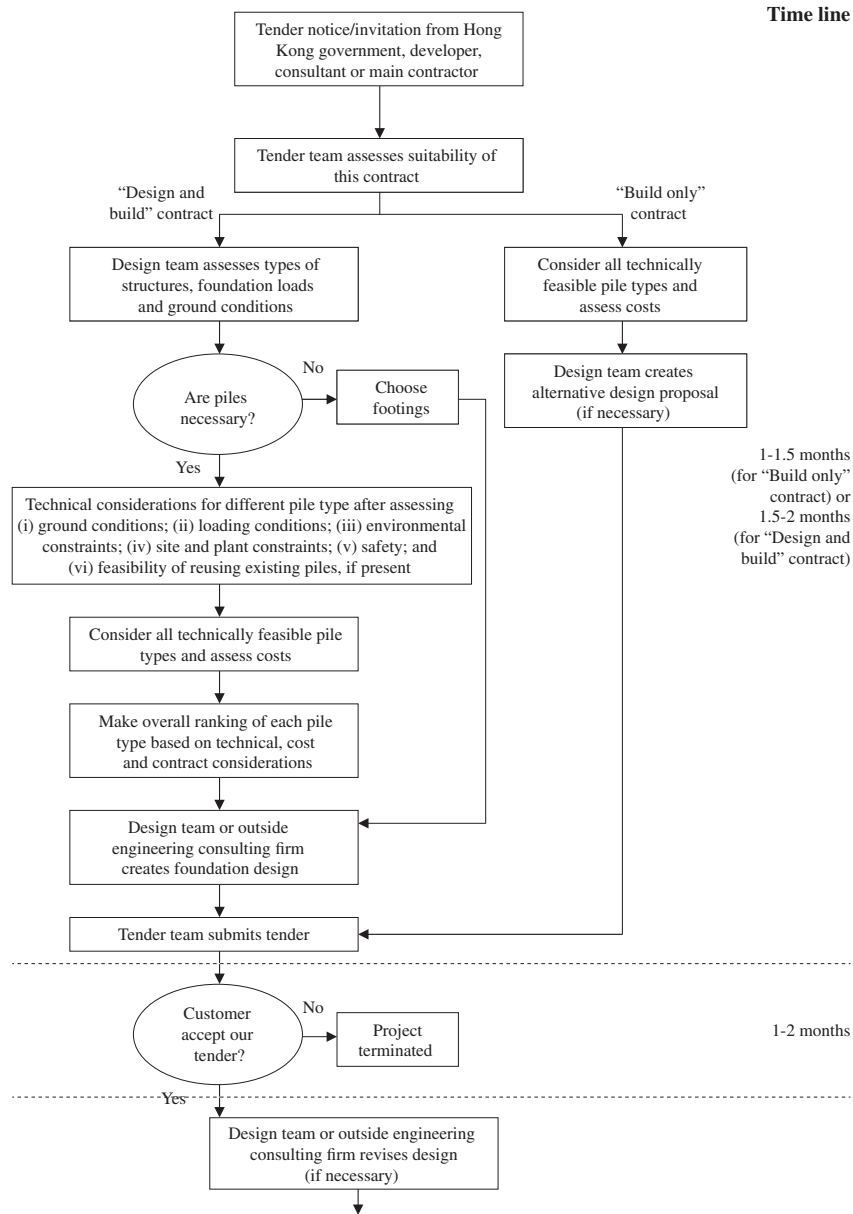
	Year ended 31 March					
	2010		2011		2012	
	Number of customers	Revenue <i>HK\$'000</i>	Number of customers	Revenue <i>HK\$'000</i>	Number of customers	Revenue <i>HK\$'000</i>
Construction work						
— Main contractor	2	3,747	8	95,781	13	167,536
— Subcontractor	3	41,407	14	161,222	14	135,035
Machinery leasing	<u>1</u>	<u>6,158</u>	<u>2</u>	<u>502</u>	<u>7</u>	<u>10,551</u>
 Total	 <u>6</u>	 <u>51,306</u>	 <u>24</u>	 <u>257,505</u>	 <u>34</u>	 <u>313,122</u>

Save for the interest of Mr. Cheng, Mr. Wong and Mr. Tsui in Sunnic prior to its acquisition by our Group in June 2010, none of our Directors, their associates or any Shareholder (who or which, to the best knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of our five largest customers.

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OPERATING PROCEDURES

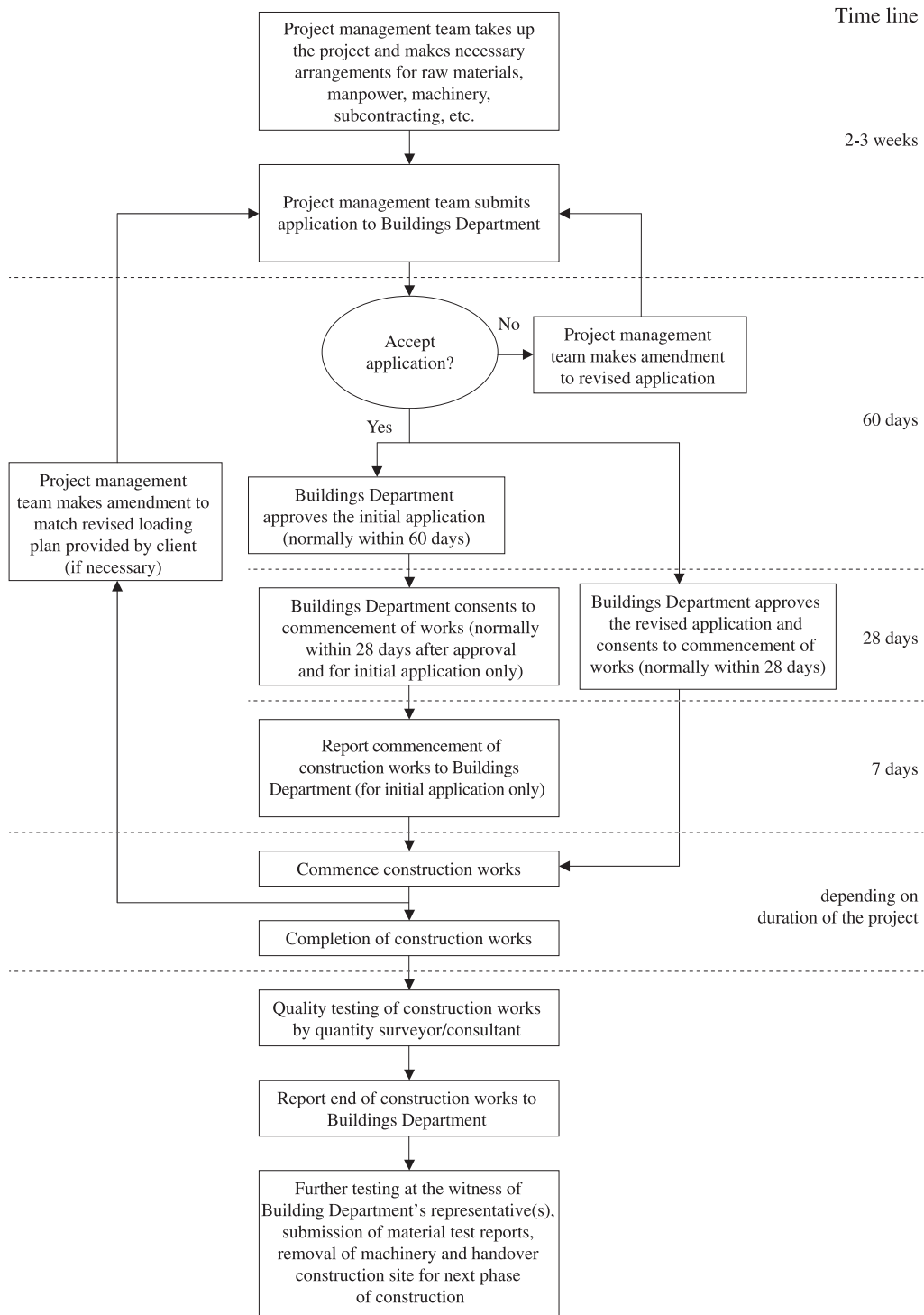
Our operational procedures in respect of construction works principally involve identifying potential projects, tendering, foundation layout design and project implementation. We have developed a comprehensive management system covering the entire construction process, including project planning, contract management, project control and project completion and handover, and was accredited with ISO 9001:2008 in 2008. For illustration purpose, a simplified flow of our operation procedures in respect of construction works is outlined below:



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Identifying potential projects

For public sector construction projects (except Housing Authority foundation projects), they are generally identified by us by reviewing the Hong Kong government gazette, in which tender invitations from different Hong Kong government departments are published. As both of Sunley and Sunnic are listed under Specialist List Group II of the Listing of Public Works Contractors of the Works Branch, Development Bureau for their respective specialties, we are also informed of projects subject to tender by way of invitation letter(s) issued directly from the Hong Kong government departments concerned. For the Housing Authority and private sector projects, the Housing Authority and private sector customers (such as property owner, developer or their professional consultants) usually issue invitation letter(s) to entities on their respective list of approved contractors as one of the potential tenderers for their respective construction projects. The tender notices published by the Hong Kong government and the invitation letter(s) issued by the Housing Authority or private sector customers normally include brief description of the works required, the expected commencement date and contract period, the contact details of the office from which forms of tender and further particulars of the projects may be obtained and the closing time and date of the tender.

There are also occasions that we are approached by the main contractors of certain construction projects and requested to provide an indication of our interest to act as their subcontractor in the subject projects after obtaining the preliminary specifications from them. Our Group could be approached by main contractors due to our Directors' connections, previous working relationship, referral from other customers/main contractors and information on the Specialist List maintained by the Works Branch.

We review the potential projects in hand to identify those which are profitable and manageable and decide on which projects are to be pursued based on factors including the scope, complexity and particular specification of the projects, achievability of the specified timetable, prior experience, availability of resources and expertise, our current competitiveness and our financial conditions.

Tendering

After obtaining the tender package which contains, amongst others, the tender document and project specifications, we will commence preliminary work for the preparation of tender submission or quotation. Such preliminary work usually includes understanding the project specifications and requirements and paying a visit to the site at which the project is to be undertaken if we consider necessary. Normally, we expect to have approximately three to eleven other entities entering competing bids in a particular tender.

For "build only" contracts, we will prepare and submit tenders or quotations on the basis of foundation layout designs provided by the customers or their project consultants. If allowed, we may propose alternative designs of our own to the customers. The time required to prepare a tender or quotation varies from case to case, and depends on specific requirements of a project. Generally, it takes about four to six weeks from receipt of the tender documents to submission of the tender proposal or quotation for a "build only" contract.

For "design and build" contracts, instead of providing us with the foundation layout designs, the customers or their consultants, usually architects or engineers appointed by the customers, normally only provide us the ground investigation reports composed by contractors appointed by them and the loading schedules. We will assess the complexity of the works involved and determine which piling system and

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engineering design approach to adopt for carrying out the works in an efficient and cost-effective manner. Our engineering design team will then prepare our own foundation layout designs and we will submit tenders or quotations on this basis. In some occasions, we may also engage outside engineering consulting firm to carry out the foundation layout design for us. Generally, it takes about six to eight weeks to prepare a foundation layout design and submit a tender proposal or quotation for a “design and build” contract.

In general, we will take into account of various factors, including the site conditions, price of materials as quoted from suppliers, human resources, programme of works, availability of machinery, creditworthiness of the customer, involvement of subcontractor(s) and other factors in preparing a competitive and profitable tender or quotation. During our tender preparation, we will study the site investigation reports provided by the customer. Based on the experience of our Directors and senior management, we will consider the potential difficulty and risk factors in estimating the total cost of the projects. We will then prepare our tender based on our estimated project costs (which mainly include machinery usage cost, direct labour cost, subcontracting charges and construction material costs) plus a mark-up margin at the time when we submit our tender for projects or our initial proposals to our potential customers. Based on such preparation works, our Group uses its best effort to ensure that the estimated project cost will not exceed the contract value, in particular for fixed-price contracts. A fixed price contract generally has variation clauses in the construction contract. We are required to perform certain variation works not included in the original contract as requested by our customer. Our customer will perform measurement, valuation of the variation work and adjustment to provision sum, and the effect of change will be added to the architect’s certificates. Thus the amount under the final contract sum will then be adjusted to reflect the changes. Our Group also performs our variation work assessment and if we do not agree with the employer’s assessment, the dispute will be resolved by ways specified in the construction contract. The majority of our Group’s tenders are submitted for fixed-price contracts where a fixed total contract sum is specified for the total amount of work done. Such fixed-price contracts represented approximately 87%, 82% and 98% of the total project revenue for the three years ended 31 March 2010, 2011 and 2012 respectively. Occasionally, our Group may also submit tenders for remeasurement contracts. Unlike fixed-price contracts, the final sum to be received by our Group is based on the amount of work done (e.g. total number of piles constructed) in the end which is not specified in the original contract. Such remeasurement contracts represented approximately 13%, 18% and 2% of the total project revenue for the three years ended 31 March 2010, 2011 and 2012 respectively.

Our business is generally undertaken by our principal operating subsidiaries, Sunley, Sunnic and Full Gain. Since some of Sunley and Sunnic’s qualifications and registrations with the relevant Hong Kong government departments or public organisation, and licences held by them are in common, both Sunley and Sunnic will from time to time receive invitation letter(s) from the same customer to submit tender for the same project. Please refer to the paragraph headed “Qualifications” under this section for details regarding our major contracting qualifications and licences. It is our intention that Sunley will mainly focus on foundation works involving the use of large diameter bored piles while Sunnic will mainly focus on foundation works involving the use of socketed H-piles, mini-piles, percussive piles and ground investigation field works. We have established internal procedures to avoid Sunley and Sunnic submitting separate tenders for the same foundation or construction project whether as a main contractor or subcontractor, even in the case that both of them are being invited for tender submission. Should the

contract is awarded to either Sunley or Sunnic, we will find out any possible arrangements that would be of the most efficient and cost-effective way to complete the project, including the subcontract of part or whole of the project to the entity with the appropriate expertise and available resources.

Public sector contracts

Invitations to tender for public sector projects are normally advertised in the Hong Kong government gazette and are open to approved contractors, except for Housing Authority projects that the Housing Authority normally issue invitation letter(s) to potential bidders. We may either tender for the relevant foundation works as subcontractor via main contractors who are eligible to tender for the overall contract works, or tender for the construction works under a separate tender as a main contractor. We also from time to time submit tenders or quotations to main contractors of certain public sector construction projects to carry out part of the works as their subcontractor.

Private sector contracts

Invitations to tender for private sector foundation projects are normally from property developers in Hong Kong. Based on our best information and knowledge, property developers generally maintain their own list of approved contractors to which they will send out tender invitations. Similar to public sector projects, we may either tender for the relevant construction works as subcontractor via main contractors, or tender for the construction works under a separate tender as a main contractor. Again, we also from time to time submit tenders or quotations to main contractors of certain private sector construction projects to carry out part of the works as their subcontractor.

Foundation layout design

We have an in-house design team that is capable of preparing foundation layout designs which cater to the different requirements of each “design and build” project. Generally, our design team is involved early in the tendering process. Our design team includes structural engineers who has extensive knowledge on the sub-soil and bedrock conditions in various localities in Hong Kong. We believe our ability to design competitive foundation layouts is essential in the tendering process as the foundation layout design has a significant and direct impact on the construction costs and therefore the tender amount in our tender proposal.

In a “design and build” contract, our design team closely studies the site investigation report provided by the customer or its consultants which gives important data on the underground conditions which sets out the design parameters for subsequent foundation works. After fully understanding the ground conditions, our design team will then study other factors such as loading requirements of the superstructure, environmental constraints, site and plant constraints, safety, etc. Generally, the specifications, loading plans and loading schedules are provided by the customer or its consultants, usually architects or engineers. Based on an analysis on all relevant factors, the design team will pick the most suitable type of foundation works and commence the actual foundation design work in compliance with the relevant code of practice and regulations. During the tendering process, the design team works closely with the tendering team to work out various details such as costs, manpower, materials, time, etc. required for completion. After a contract has been awarded to us, the design team works closely with the project management team to ensure proper implementation of the layout design. In some occasions, we may also engage outside engineering consulting firm to carry out the detailed foundation design for us.

Project implementation

Formation of project management team

Once we are awarded a contract, our management will form a project team, which normally consists of a project manager, a general foreman and a safety supervisor. Depending on the size of the contract and the complexity of the works undertaken, the project team may also include site engineers, design engineers (as appropriate), and quantity surveyor. The responsibilities of our project management team will include engineering design and technical submission, devising detailed works programme, procurement of materials, delegation of works to subcontractors, coordination with the customer or its consultants, and with subcontractors and suppliers and to take charge in the overall management of these works.

Once a project is launched, our senior management will closely monitor the progress of the project in all respects to ensure that it meets the customer's requirements and is completed in accordance with the time scheduled, within the budget stated in the contract, and in compliance with all statutory requirements in connection with the works, safety, environmental and other related legal or regulatory requirements. Our project team also holds regular project meetings with our employers or, as the case may be, their professional consultants (e.g. architect or engineer) to assess and review the progress of the project and to identify and resolve any problem or issue which may arise during the course of carrying out our works. Our project team also submits progress reports to the employer or its professional consultants during such project meetings.

We were awarded the Studio City project in Macau in May 2012. Our Group has no employees in Macau and all direct workers and necessary project management personnel will be deployed from our Hong Kong offices. The main contractor of the Studio City project will enter into employment contracts with the workers and apply for authorisation of non-resident worker permit for these non-resident workers in Macau. Our Group will bear the staff remuneration for these workers in Macau.

Procurement of materials and machinery

We are principally engaged in the foundation business and most of our works required the use of machinery. We will purchase additional machinery to meet the requirements of a particular project or to replace the aged ones. We had purchased machinery, including crawler cranes, oscillators, reverse circulation drills, hydraulic drills, jacking machines and drilling rigs, from Asian and European suppliers.

The major construction materials used by us are mainly concrete, steel reinforcement, steel H-pile and mild steel casing, which are mainly sourced in Hong Kong. Proposed materials, together with actual sample if possible, will be approved by the customer via our project management team prior to order. For Hong Kong government projects, we normally have to purchase construction materials from approved suppliers within the Specialist List maintained by the Works Branch. For private sector projects, unless the customers require us to select suppliers nominated by them, we select our suppliers from our approved list of suppliers. The amount and timing of construction materials to be ordered is assessed by the project manager and quantity surveyor of our project management team on a project-by-project basis depending on the progress of works and specific requirements of each projects. Materials purchased by us are normally delivered by the supplier to the construction site directly. We generally do not keep excess inventory.

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We assess the overall performances, including product quality, timeliness of delivery, job references and reputation in the industry, of the suppliers in our approved list on an annual basis to ensure that we have maintained a diversified base of reliable suppliers which offer competitive prices. As at the Latest Practicable Date, there were over 90 suppliers on our approved list of suppliers. Generally, we select our suppliers based on their prices, past performances, and their capacity through a competitive tendering process and none of our suppliers has entered into any long term supply agreement with us. Generally, we pre-order raw materials approximately one week in advance based on progress of works at each of the construction sites, and confirm the order approximately 3 days prior to delivery. During the Track Record Period, we have not experienced any significant delay in delivery of raw materials by our suppliers causing disruption to our works.

For contracts undertaken by us as a subcontractor, if the subcontracts entered into between us and the main contractor so provides, the main contractor may be responsible for purchasing the required materials for us to carry out the subcontracted works concerned.

To carry out the Studio City project in Macau, our Group will employ a specialist transportation company to ship the required machinery to Macau.

Materials and machinery purchased by us are normally settled by cheque payments in Hong Kong dollars. Our suppliers normally grant credit period of 14 to 60 days to us.

We incurred approximately HK\$16.7 million, HK\$91.9 million and HK\$115.4 million in construction materials costs for each of the years ended 31 March 2010, 2011 and 2012 respectively, representing approximately 51.3%, 49.2% and 45.5% of our cost of sales for each of the years ended 31 March 2010, 2011 and 2012 respectively. Construction materials costs incurred for our largest supplier accounted for approximately 11.1%, 8.2% and 16.3% of our total construction material cost for each of the years ended 31 March 2010, 2011 and 2012 respectively and construction materials costs incurred for our five largest suppliers accounted for approximately 42.4%, 25.6% and 49.3% of our total construction material cost for each of the years ended 31 March 2010, 2011 and 2012 respectively.

None of our Directors, their associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our five largest suppliers as at the Latest Practicable Date.

Subcontracting

Depending on our internal resources level, cost effectiveness, licensing/specialist requirements, and level of works complexity, we generally, subcontract parts of the construction works, including welding, steel bar fixing, concrete coring, excavation, pile cap construction, site investigation, foundation layout design, etc. to qualified subcontractors by entering into separate contracts with them. During the Track Record Period, all of the Major Projects undertaken by our Group involve some degree of subcontracting. With the use of subcontractors, we can undertake works involving specialized construction skills through a significant pool of workers and technical staff in a wide variety of specific trades without the need for keeping them under permanent employment.

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The terms of our contracts with subcontractors, to certain extent, vary in accordance with the terms of the main contracts with our customers or main contractors (as the case may be) to meet the contractual requirements of our employers, but we generally adopt the following principal terms in our contracts with subcontractors for major works (e.g. pile cap):

- (a) adoption of retention money;
- (b) implementation of safety measures;
- (c) subcontractors' obligations to follow the reasonable instructions given by our representatives;
and
- (d) subcontractors' obligations to attend meetings, if so required by us.

For other minor works (e.g steel bar fixing and welding), the contracts with our subcontractors generally only cover terms such as scope/quantity of work, payment terms and retention money.

Where possible, we may require our subcontractors for major works to observe the requirements and provisions of the relevant main contract entered into between us and our customers or the main contractors. Except for situations where subcontract rates and specifications of subcontracted works are particularly stated in the subcontract agreement, we generally endeavour to have other material terms including payment, supervision and terms of measure of contract works follow those contained in the relevant main contract. Our subcontractors are neither our employees nor agents and we are not a party to the employment arrangement between our subcontractors and their employees.

For any given projects, we select subcontractors from our approved list of subcontractors. Our Group has a stringent selection process for its approved subcontractor list, requiring subcontractors to meet criteria based on a number of parameters including requirements in the main contracts with our customers or main contractors, qualifications of the subcontractor, previous cooperation experience, their quality of work, skill sets of their workers, previous job references, reputation in the industry, price competitiveness of quotation and credit-worthiness. When required, our Group's project team will hold technical interview to assess the subcontractor's capability and understanding of the works. In order to ensure the quality of works to be provided by our subcontractors, they are not allowed to subcontract their subcontracting works without our prior consent. In that connection, subcontractors are generally required to make declaration on abstaining from subcontracting works to other subcontractor.

As at the Latest Practicable Date and save for the subcontracting arrangements between operating subsidiaries of our Group, all of our subcontractors were Independent Third Parties. Pursuant to either the main contract with our customers or main contractors, or applicable laws, we remain liable to the project owners for the performance of our subcontractors. We are also liable to any potential employees compensation claims and personal injuries claims made by the employees of our sub-contractors arising from works injuries as may happen from time to time and we have maintained insurance policies to fully cover such liabilities. Therefore, we implement close and regular assessment of our subcontractors during the course of a project to ensure quality of their works and our project managers, safety officers and environmental officers will make regular site visits to ensure general compliance by our subcontractors in all respects particularly regarding safety and environmental requirements.

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For instance, our Group organises each project to enhance smooth operation of the project and control over subcontractors. The responsibilities of our Group's key staff in relation to supervision and control of subcontractors are clearly defined as follows:

(i) Project manager

Manage daily operation amongst subcontractors in accordance with contract requirements and communicate, implement and monitor our Group's policies for effective implementation. Also monitor the overall performance of the subcontractors and resolve problems on a daily basis.

(ii) Site agent

Plan, coordinate and supervise overall site daily activities, arrange resources and priority of works. Assess subcontractors to implement various policies and plans and ensure works are carried out according to specification and drawings. Implement, monitor and maintain site safety, environmental protection measures.

(iii) General foreman/front line supervisor

Supervise and inspect subcontractors' works, monitor site daily activities, and implement policies and plans to ensure works are carried out according to specification and drawings. Identify non-conformity, propose corrective and preventive actions and monitor its effective implementation.

In addition, during the continuance of the contracts with our subcontractors, we will supply with them our internal guidelines on safety and environmental issues and we will also regularly hold meetings with our subcontractors to update their knowledge on such issues. Having considered that (i) our Group has not experienced any material problems (e.g. quality of work or delay of completion) with any of our subcontractors during the Track Record Period; and (ii) our clients have not made any material complaints on our Group's subcontractors or the works performed by them, the Directors are of the view and the Sponsor concurs, that the aforementioned control measures in relation to subcontractor supervision are adequate and effective.

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

Our Directors are of the view that we maintain good working relationships with our subcontractors. Our subcontractors range from sole proprietors with several employees to sizeable companies qualified under the List of Approved Contractors and/or the Specialist List. During the Track Record Period, there were over 60 active subcontractors on our approved list of subcontractors. Active subcontractors are subcontractors that generally respond to our requests for quotation for potential works. Long-standing relationship with subcontractors enables us to have comprehensive assessment of the subcontractors over years, ensuring the quality of works in the long run. The credit term granted by subcontractors normally

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ranges from 14–30 days after issuance of progress certificate. Some subcontractors do not grant any credit term and the sum is due immediately upon issuance of progress certificate. Our approved list of subcontractor is reviewed and updated annually.

During the Track Record Period, the subcontracting charges incurred by us amounted to approximately HK\$2.1 million, HK\$57.9 million and HK\$56.6 million for each of the years ended 31 March 2010, 2011 and 2012 respectively, representing approximately 6.4%, 31.0% and 22.3% of our total cost of sales for each of the years ended 31 March 2010, 2011 and 2012 respectively. For each individual project, the amount of subcontracting charges largely depending on the extent of involvement of subcontractors, which is in turn subject to the nature and method of construction works required. Thus, the fluctuation in subcontracting charges was mainly attributable to different extent of the subcontractors' works in proportion to our Group's core foundation works. For example, in the year ended 31 March 2010, the type of works for the Bonham Road project, Jaffe Road & Marsh Road, Wan Chai project and the Gloucester Road and Marsh Road project (which accounted for 69.2% of our revenue of the year) involved only bored piles, and in that year our Group only incurred subcontracting charges of approximately HK\$2.1 million, or 6.4% of the total cost of sales. As the extent of involvement of subcontractors, and thus the subcontracting charges, have already been considered and estimated when preparing for tendering of each project, our Directors believe that, save for the gross profit margin which is affected by the proportion of subcontracting charges relative to total revenue, the fluctuation of subcontracting charges does not have material impact to our Group's financial performance. Subcontracting charges attributable to our largest subcontractor accounted for approximately 46.4%, 15.0% and 15.9% of our total subcontracting charges for each of the years ended 31 March 2010, 2011 and 2012 respectively and our five largest subcontractors accounted for approximately 100.0%, 53.3% and 56.7% of our total subcontracting charges for each of the years ended 31 March 2010, 2011 and 2012 respectively.

None of our Directors, their associates or any Shareholders (which to the best knowledge of our Directors will own more than 5% of the issued share capital of our Company immediately upon completion of the Share Offer) had any interest in our five largest subcontractors as at the Latest Practicable Date.

Duration of construction projects

Construction periods of our projects are affected by a wide range of factors including technical complexity, geological conditions, input of machines and labour and expectation of employers, etc, and can vary widely. The construction periods of our projects during the Track Record Period varied from three months to one and a half year. Project duration may sometimes be lengthened due to unanticipated geological condition and exceptional technical complexities, for instance, in our Tai Kok Tsui project which was completed in December 2008. It was first expected that the project would be completed in six months but it eventually took eight months to complete.

Guaranteed maintenance period

Our customers would normally require a guaranteed maintenance period, during which we are responsible to rectify construction defects. The guaranteed maintenance period ranges from six months to twenty four months, depending on the nature and the scale of the project. On the other hand, we may also require a guaranteed maintenance period from our subcontractors if necessary.

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Under the usual terms of the construction contracts, we are liable to rectify all defective works during the guaranteed maintenance period, if any. Our project management team conducts rectification on the defective works identified by our clients and upon completion of the rectification works, our clients are required to sign a confirmation indicating their satisfaction of the rectification works. If necessary, additional costs for repairs and maintenance are provided for in the financial statements. During the Track Record Period, we have not experienced any material claim of over HK\$0.1 million by our customers in respect of our works, and have not provided for any repair and maintenance cost in respect of defective works during the guaranteed maintenance period.

Progress payment and retention money

We normally receive progress payment from customers on a monthly basis and occasionally on a milestone basis with reference to the value of works done. In general, we submit an interim payment application to our customers on a monthly basis according to the amount of works completed during the month. Once we have submitted a monthly application for interim payment, the authorised person, such as the architects or quantity surveyors employed by the customers, would issue a progress certificate certifying the works progress in the preceding month. It normally takes about twenty-one to thirty days for such certificates to be issued. Upon the issue of the certificate, the customer is deemed to have an obligation to pay our Group the amount certified less retention money. Thus, generally no invoice is billed by our Group which is a general industry practice. For certain private customers, our Group may, at the customer's request, issue a debit note or invoice based on the progress certificate issued. Payments are generally made within thirty days after the issue of the progress certificate from public and private customers, respectively.

In most contracts, there is a contract term for the customers to hold up a retention money from the progress payment. The retention money for each project ranges from 1% to 5% of the total contract sum. Generally, in private contracts, the first half of the retention money is released upon the issue of certificate of completion of the project and the second half of the retention money is released to us upon the issue of certificate of completion of making good defect after the expiry of the guaranteed maintenance period. But in most of Hong Kong government and Housing Authority contracts, the retention money is released only upon the issue of certificate of completion of making good defect after the expiry of the guaranteed maintenance period. As at 31 March 2012, retention receivables held by our customer included in total trade receivables amounted to approximately HK\$19.5 million.

Our Group recognises construction contracts income based on the stage of completion of the contracts. The stage of completion of a contract is established by reference to the construction works certified by an independent surveyor. The portion of total contract revenue that is certified to have been completed in a period is recognised as revenue of our Group in the respective period. It normally takes 21 to 30 days for the progress certificates to be issued, and the certification date may not fall exactly on the end of our Group's reporting period. In this case, the value of work performed by our Group in a particular project before the end of each reporting period but after the last certification date during the reporting period is also recognised as our Group's revenue if the portion of the work is properly certified subsequent to the reporting period.

Similarly, we normally pay our subcontractors on a monthly basis with reference to the value of the works done and if the main contract adopts milestone payment, we will, to the extent practicable, seek payment term for subcontractors on similar basis. Each of the subcontractors is required to submit a

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request for payment to us at the middle or the end of each month. Once we have verified the subcontractor's request against the actual works done or their payment entitlement according to the milestone payment term, we will release the relevant proportion of the subcontracting amounts but hold up a retention money. Payments are generally made within one month after the subcontractor's request. The retention money from subcontractors ranges from 1% to 5% of the total subcontract sum and is normally subject to a mutually agreed cap. As at 31 March 2012, retention money payable to our subcontractors held by us included in trade payables amounted to approximately HK\$2.9 million.

In the case of us being a subcontractor, we normally settle the progress payment and retention money with the main contractor in the similar manner as we pay our subcontractors mentioned above.

Performance bonds/liquidated damages

In order to secure due and timely performance of the main contractor, it is normal for customers to request the main contractor to take performance bonds issued by a bank or an insurance company in favour of the customers, and to include a liquidated damages clause in relation to the main contractor's late completion of works. To provide for certain unforeseen circumstances which are beyond the control of the contractor (e.g. heavy rainfall, typhoon, etc.), a clause may be included in contracts for public works only for "extension of time" which the contractor may use to offset liquidated damage claims arising out of possible late completion of works. In addition, a clause in relation to "extension of time" may be included for both public and private works arising out of "variation order" which are additional works beyond the scope of the original contract and performed at the request of the client.

Generally, the amount of performance bond required for a project undertaken out by us would not exceed 10% of the total contract sum and the performance bond normally expires after completion of the project. As at 31 March 2010, 2011 and 2012, our Group had guarantees on performance bonds of approximately HK\$3.4 million, nil and HK\$5.5 million respectively. We believe that we have a reputation for completing projects on schedule, and during the Track Record Period, no performance bond had been called by our customers by reason of late completion of any of our projects.

The following table sets out the summary of timeline of major milestones for receipt of contract sums by our Group:

Milestone for receipt of contract sums	Timeline
— submission of application for interim payment	usually monthly during contract period
— issuance of progress certificate	normally ranging from 21 to 30 days
— payment by customers	generally within 30 days
— receipt of all retention money from customers	ranging from 6 to 24 months

MACHINERY

Most of our works require the use of various machinery. Since our establishment, we have been acquiring machinery mainly from Europe and Asia. We believe that investment in such machinery has placed us in a strong position to cater for larger scale and more complex foundation contracts and to meet the expected growing demand in major infrastructure and building developments in Hong Kong in

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the foreseeable future. We have made substantial investment in machinery in recent years. During each of the years ended 31 March 2010, 2011 and 2012, we acquired new machinery in the amount of approximately HK\$36.6 million, HK\$75.8 million and HK\$42.3 million, respectively to cater for the increasing demand for new or more sophisticated machinery. As at 31 March 2012, our machinery had a total net book value of approximately HK\$170.9 million.

The principal machinery of our Group include the following:

- (a) Crawler crane: it is used for grabbling, chiseling and lifting during bored piling operations
- (b) Oscillator: it is used together with the crawler crane as excavation tool to form bore holes into the ground
- (c) Reverse circulation drill: it is used to drill through hard and soft materials to form large diameter bore in the ground
- (d) Hydraulic drill: it is used to drill through hard and soft material to form small to medium diameter bore in the ground
- (e) Jacking Machine: it is used to press steel H-pile or circular concrete pile into the ground
- (f) Drilling rig: it is a track mounted machine used with hydraulic drilling equipment in H-pile or mini-pile.

We place high importance to the maintenance of our machinery. We believe that always maintaining our machinery in good conditions is crucial for us to carry out construction works smoothly and efficiently. Repairing of our machinery are usually carried out by the authorised agent and third party maintenance specialists.

Some of our Group's machinery was financed by finance leases. In light of our liquidity position as at 31 March 2010, our Group raised external financing through finance leases and bank borrowings, part of which is non-current in nature, to ease our needs for working capital and our long-term investment in machinery. The Directors confirmed that this arrangement was in line with industry practice. In choosing between finance lease arrangements and other financing sources such as bank borrowings, our Group takes account of a basket of factors including interest cost, availability of funds, repayment schedule and security requirements among which interest cost is an important factor. During the Track Record Period, our Group took on more finance leases than bank borrowings in terms of monetary value, and the average interest cost of finance leases was lower than that of bank borrowings during the Track Record Period. For the year ended 31 March 2011, the average interest rates were 1.39% per annum and 1.59% per annum for our finance leases and bank borrowings respectively. For the year ended 31 March 2012, the average interest rates were 2.23% per annum and 2.44% per annum for our finance leases and bank borrowings respectively. Average interest rate was calculated as finance cost divided by the average month-end balances of finance lease liabilities or bank borrowings during the period.

Since the year ended 31 March 2010, our Group has acquired certain machines by way of finance leases, under which our Group purchased certain machines from suppliers, sold them to a bank and the bank leased back those machines to our Group at stipulated monthly rents in a fixed term. Under these

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finance leases, we were given options to purchase these machines at a nominal amount ranging from HK\$500 to HK\$1,000 at the end of the lease term. Since the terms of these finance leases transfer substantially all the risks and rewards of ownership of the machines to our Group as the lessee, these leases were classified as finance leases of our Group and the relevant machines were accounted for as our Group's assets under the category of property, plant and equipment. Our Group had machinery under finance leases with net book value amounting to approximately HK\$22.8 million, HK\$88.5 million and HK\$117.9 million as at 31 March 2010, 2011 and 2012 respectively, representing 27.4%, 56.8% and 69.0% of the net book value of machinery as at 31 March 2010, 2011 and 2012 respectively.

Due to the unique nature of our operations, it is not feasible or practicable to quantify and disclose detailed utilisation rate of our machinery for the following reasons:

- (a) The utilisation rate of individual machines cannot be clearly defined. A typical construction project requires the use of different machines at different construction steps, and machines from time to time are left unused in active construction sites pending for completion of other construction steps. Machines are also sometimes left unused for repairing, assembling or disassembling in construction sites. For these reasons, it is our Directors' view that it would be difficult and even infeasible to define accurate utilisation rate of machines in general. Besides, it is not practicable for us to make a full account of the daily/hourly usage of each individual machine.
- (b) As at 31 March 2012, our Group had over 150 pieces of machinery and equipment in our Group's fixed asset inventory, representing a collection of 30 types of machinery and equipment. A single construction task usually requires several types of machines and equipment. Since our Group's operation involves more than ten types of foundation works and ancillary services, it would be difficult for us to identify one or a few types of machinery and equipment that are most crucial to the operation of our Group.

Machinery rental

Our machines are usually mobilised from one construction site to another depending on the works progress and requirements of different projects. Unutilised machines will be temporarily stored in our warehouses or leased to other third party machinery company and contractors if opportunities arise. However, we are not actively pursuing and do not intend to actively pursue business opportunities in machinery leasing which is conducted only for increasing utilization of idling resources.

During the Track Record Period, revenue from machinery leasing represents approximately 12.0%, 0.2% and 3.4% of our total revenue for each of the years ended 31 March 2010, 2011 and 2012 respectively.

CREDIT POLICY

We normally secure our business through competitive tender process. Before deciding whether to submit a tender proposal, we normally consider factors such as the creditworthiness of the relevant customers and the key contract terms stipulated in the relevant tender document. For details of the tendering process, please refer to the sub-section headed "Tendering" of this section. We will closely monitor the payments from the customers pursuant to the terms of each respective contract. In addition, our management also takes into account the length of business relationship, past reputation, financial

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strength and repayment history of each of our customers. If necessary, meetings are held between our management, project team and accounts department to review the aging status of our account receivables. Settlement is monitored by our accounts department. For outstanding balances that are overdue by 60 days, our management and project team will be alerted and appropriate follow up action will be taken.

For construction works, credit terms given to our customers are generally set out in the relevant contract. Generally, payment is due 14–30 days after the issue of the progress certificate by the authorised person. Settlement is normally made in cash. Our trade receivable turnover day was approximately 71.3 days, 59.4 days and 85.7 days for the years ended 31 March 2010, 2011 and 2012 respectively.

We do not make any general provision for doubtful debts. Our Directors determine specific provision for doubtful debts on a case-by-case basis. We did not make any provision for doubtful debts during the Track Record Period.

QUALITY CONTROL

Our Directors believe that our financial results and hence our profits depend on our ability to meet our customers' and the end-users' requirements in all respects. In pursuit of quality excellence, we have established formal quality management system in accordance with the requirements of ISO 9001:2008, OHSAS 18001:2007 and ISO 14001:2004 to develop a sustainable performance-oriented culture with an emphasis on pursuing continuous improvement rather than adopting a short-term and project based approach.

We place strong emphasis on quality control as we believe completing works that meet or exceed our employer's requirements is crucial not only for building safety, but also for job reference and future business opportunities. To ensure our works meet the required standards, we normally assign a foreman on a full time basis at each of the construction sites as the first line of monitoring of the quality of works done by our own staff and, as the case may be, our subcontractors. The project manager who generally makes daily visits to construction sites is responsible for monitoring works quality and progress of works and ensure that works are completed according to schedule. Furthermore, our project team hold weekly meetings with our management during which our management monitors each of the projects' progress and discuss issues identified. Our management monitors closely the progress of each of the projects to ensure the works (i) meet our employer's requirements; (ii) are completed within the time stipulated in the contract and the budget allocated for the project; and (iii) comply with all relevant codes and regulations applicable to the works. Since remedies for defective piling works are often not possible once construction works for the superstructure have commenced, we and our employers conduct thorough testing of the piles before certification of completion of foundation works so as to ensure that our piling works meet or exceed the required standards prior to commencement of construction works of the superstructure.

With regards to raw materials, we generally procure them from our own approved list of suppliers which we have had satisfactory past business relationships. In certain projects (e.g. government projects), we may be required by the employer to procure raw materials from our employer's approved list of suppliers. To ensure a consistent quality in the raw materials used which meet the required standards, we may from time to time engage third party laboratories to conduct sample tests on the

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strength of our two principal raw materials, i.e. steel and concrete. For projects where we are engaged as a subcontractor, our employer may also from time to time conduct their own testing of raw materials to ensure quality.

ENVIRONMENT

Our business is subject to certain laws and regulations in relation to environmental protection. Please refer to the section headed “Laws and Regulations” in this prospectus for further information about such laws and regulations. Our Directors believe that it is essential for us to act as an environmentally responsible contractor to meet the customers’ demands in environmental protection and the expectation of the community for a health living environment and in return it will ensure the healthy growth and development of our business.

We are committed to minimisation of any adverse impact on the environment resulting from our business activities to fulfill our responsibilities to both the community and environment. In addition, in order to comply with the applicable environmental protection laws, we have established an environmental management system in our operations in accordance with ISO 14001:2004 international standards and Sunley and Sunnic were awarded ISO 14001 certification in 2008 and 2009, respectively. We allocate resources to update our environment management system and maintain our ISO 14001 certification in order to reduce our risks related to environmental issues. We also require our subcontractors to comply with our environmental protection policy and encourage our staff to contribute towards sustainability by adopting environmentally friendly construction method and planning their works to efficiently eliminate waste to the maximum extent with the view to achieving long-term cost savings.

During the course of carrying out construction works, noise and vibration are inevitably generated through the use of our machinery. If the situation permits, we strive to minimize disturbances to residents in the vicinity of our construction sites. Due to the nature of percussive piles which involve the driving of piles by percussive means (e.g. hammering), this type of piling works is perceived to generate a substantial amount of noise and vibration while the machines are in operation. On the other hand, our other main piling type bored piles generate comparatively less noise and vibration than percussive piles. However, the use of bored piles may be restricted by the size of the construction site as the machinery involved generally require much more space than those used by percussive piles. As such, use of bored piles may not be possible on small construction sites such as certain redevelopment sites within high density urban areas. The hours of operation during which foundation works are permitted are set out in the construction noise permit issued by the Environmental Protection Department. Generally speaking, the hours for operation is from 7:00 a.m. to 7:00 p.m. Monday to Saturday, and for percussive piles, the machines are permitted to operate for only 3 hours a day in urban areas. Works are generally not permitted on Sunday and public holidays. Under certain circumstances, we may apply for special extension to carry out works during prohibited hours but such special extension would only be granted on the basis that works carried out will not disturb others, e.g. for construction sites located at remote areas with no nearby residents. Although we strictly adhere to the restricted hours of operations stipulated in the construction noise permit, we may from time to time receive complaints from nearby residents regarding disturbances caused by operation of our machinery. Under such circumstances, we will work with the relevant authorities and the person making the complaint with the aim of introducing measures (e.g. installing sound proofing) to mitigate the disturbances caused.

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During the Track Record Period, the annual cost of compliance with applicable environmental laws and regulations in Hong Kong were approximately HK\$0.3 million, HK\$1.1 million and HK\$1.4 million respectively. The increase in the annual cost of compliance for the year ended 31 March 2011 was mainly attributable to the acquisition of Sunnic by our Group during that year. Our Group expects such cost going forward would be at similar level as the annual cost for the year ended 31 March 2012. During the Track Record Period, we were in full compliance with applicable environmental laws and regulations.

SAFETY AND INSURANCE

Safety

Our Directors are of the view that if safety is not managed properly, it can be extremely costly not only in human terms, but in monetary terms as well. Therefore, safety is treated as the highest priority during the delivery of our services and we are committed to providing a safe and healthy working environment for the benefit of our staff, our subcontractors and the general public. Our Directors believe that our corporate image as a quality foundation contractor could be enhanced through continual improvement in safety performance. We established a safety and health management and audit system in accordance with the requirements of OHSAS 18001 and Sunley was accredited with OHSAS 18001:2007 certification in 2009.

Our safety system is documented in written procedures and supplemented with oral instructions, training and demonstration. We require strict implementation of our safety system with supervision by our Group's or the subcontractors' management staff. In addition, we have employed qualified safety officers approved by the Labour Department in Hong Kong to monitor and implement our safety system. Our Group hires a consultancy company for conducting safety risk assessment, performing safety inspection, providing safety training, preparing safety plan for our Group and preparing underground utility detection report for construction sites. We will continue to put adequate resources and effort to uphold and improve our safety management system in order to reduce our risks related to safety issues. The safety measures adopted by our Group are set out in the paragraph headed "Litigation, arbitration and potential claims" under this section.

Due to the nature of works in the construction industry, risks of accidents or injuries to workers are inherent. Although our Group has implemented various safety measures to mitigate such safety risks, the occurrence of accidents or fatal injuries to workers on our construction sites cannot be completely eliminated. For the three years ended 31 March 2012 and the period between 1 April 2012 and the Latest Practicable Date, we recorded four, eight, four, three accidents respectively, involving four, nine, seven and three workers who were either employed by our Group or by our subcontractor(s) respectively. The above information includes the accident cases of Sunnic and Full Gain, although they were acquired by our Group in the year ended 31 March 2011. We have taken out insurance for our workers as required by contracts and/or the Employment Ordinance. During the Track Record Period, no material injury and fatal accidents have happened in the sites for which we were responsible, and no prosecution has been laid against us by any relevant authorities in respect of violation of applicable laws or regulations of safety and health.

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In March 2012, an accident occurred on one of our Group's construction site which has resulted in serious injury and there is pending litigation in relation to charges laid by the Labour Department in connection with the accident. Further details of the accident and the charges laid by the Labour Department are set out in the paragraph headed "Litigation, arbitration and potential claims" and "Compliance" under this section.

A table comparing the construction industry average rate against our Group in regards to accident rate per 1,000 workers and fatality rate per 1,000 workers is set out below:

	In construction industry (Note 1)	Our Group's construction sites (Note 2)
2009		
accident rate per 1,000 workers	54.6	30.7
fatality rate per 1,000 workers	0.376	—
2010		
accident rate per 1,000 workers	52.1	55.4
fatality rate per 1,000 workers	0.163	—
2011		
accident rate per 1,000 workers	49.7	17.7
fatality rate per 1,000 workers	0.367	—

Note 1: Occupational Safety and Health Statistics Bulletin Issue No. 12 (July 2012) by Occupational Safety and Health Branch Labour Department.

Note 2: Our Group's accident rate is calculated as the occurrence of accident during the year divided by the daily average construction site workers in Sunley's and Sunnic's construction sites during the year. The daily average construction site workers includes employees of Sunley, Sunnic and their subcontractors.

Based on the above, our Directors believe that the accident rate of our Group is similar to the industry average and our fatality rate is lower than the industry average.

In 2009, 2010 and 2011, our Group recorded no fatal injuries at our construction sites. In 2010, the accident rate at our construction sites was slightly higher than the construction industry in Hong Kong, while the accident rate at our construction sites in 2009 and 2011 was noticeably lower than the construction industry.

Our Directors confirmed that we have complied with all the relevant laws, rules and regulations relating to safety and health. Upon perusal of the necessary documents relating to the existing projects undertaken by our Group, our legal adviser as to litigation in Hong Kong confirms that it is not aware of any non-compliance by our Group in relation to the relevant laws, rules and regulations relating to safety and health as at the Latest Practicable Date.

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Insurance

It is a practice in the Hong Kong construction industry, as well as a contractual term between the relevant main contractor and a customer, that the main contractor of a project will take out and maintain employees' compensation insurance and contractor's all risks insurance for the entire project. The coverage of such insurance policies includes all works performed by the main contractor and all its subcontractors. However, the subcontractors are generally required to maintain insurance over their own machinery. All projects undertaken by us and the relevant employees are respectively protected by contractors' all risks and employees' compensation insurance which, depending on the terms of the relevant contracts, are taken out either by the main contractors (in the case of us being a subcontractor) or us. When acting as a subcontractor, we will not take out separate insurance policies but will rely on the insurance policies taken out and maintained by the relevant main contractor. The reliance of us on the main contractors' insurance policies is explicitly provided for in the relevant subcontracting agreements. Our Group has insurance cover for its liabilities under employee compensation and personal injury claims which meets the statutory minimum insurance coverage of HK\$100 million which is on a per incident basis. Our Group considers such insurance coverage is sufficient for its liabilities under employees' compensation claims and personal injuries actions. For machinery acquired under finance leases, the banks also require us to maintain insurance coverage over those machines.

Taking into account the industry practice and the insurances taken out by our Group as stated above, our Directors believe that we have obtained adequate insurance coverage for the operation of our business.

COMPETITION

Our Directors believe that competition in the foundation industry is not as keen as that in other parts of the construction industry as the barrier of entry is relatively high.

Public sector

In the public sector, contractors undertaking foundation works must be listed under the Works Branch and/or the Housing Authority, and/or other public organisations. Please refer to the section headed "Laws and Regulations" in this prospectus for further details.

The following table sets out the license or registration categories for public sector works under which our Group is approved for and the number of approved contractors so approved in each of these categories as at 17 September 2012:

License or registration	Number of approved contractors
Specialist List Group II in large diameter bored pile (with bell-out)	14
Specialist List Group II in mini pile	19
Specialist List Group II in rock-socketed steel H-pile in pre-bored hole	22
Specialist List Group II in steel H-pile	20
Housing Authority List of Piling Contractors (Large Diameter Bored Piling Category)	9

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As at 17 September 2012, there were 35 approved Specialist List Group II contractors (with a majority of them registered in more than 1 category) under the land piling work category of the Development Bureau's list of approved specialist contractors for public works. There were only six specialist contractors that are eligible for undertaking piling works by all of the four methods which our Directors consider to be common in the industry: (i) large diameter bored pile (with bell-out), (ii) rock-socketed steel H-pile in pre-bored hole, (iii) steel H pile, and (iv) minipile. With only 35 approved Specialist List Group II contractors for land piling work, and even fewer specialist contractors that are eligible for undertaking piling works by all of the four common methods competing for all piling and related foundation works in public projects in Hong Kong, the environment of competition in the public projects foundation industry is likely to be less intense than in other sectors of the construction industry. Our Directors consider that our Group's major competitors in the public sector are China State Construction Engineering (Hong Kong) Limited (subsidiary of Hong Kong listed company), Gammon Construction Limited, Tysan Foundation Limited (subsidiary of Hong Kong listed company) and Kin Wing Engineering Company Limited and based on our Directors' industry knowledge, we believe these competitors can achieve better economy of scale through higher construction capacity than our Group.

As mentioned in the subsection headed "Overview" in the section headed "Business" of this prospectus, the construction contracts income of our Group for the year ended 31 March 2012 represented approximately 2.5% of the gross value of piling and related foundation works performed by main contractors at construction sites in Hong Kong. Since our construction contracts income generated from public projects represented approximately 9.9% of our Group's total construction income for the year ended 31 March 2012, our Group's market share for public sector foundation works for the year ended 31 March 2012 was estimated to be insignificant. As illustrated in the chart titled "Gross value of construction works performed by main contractors at construction sites in Hong Kong" set out in the subsection headed "Construction industry in Hong Kong" in the section headed "Industry Overview" in this prospectus, both public and private sector construction outputs in 2011 were at comparable levels. Accordingly, we consider that the above is a fair estimate of our Group's market share in the public sector foundation works.

Private sector

In the private sector, the Buildings Department requires contractors undertaking foundation works, site formation and ground investigation field works to be registered under the Buildings Ordinance as a registered specialist contractor. Please refer to the section headed "Laws and Regulations" in this prospectus for further details.

The following table sets out the license or registration categories for private sector works in which our Group is registered under and the number of contractors so registered in each of these categories as at 17 September 2012:

License or registration	Number of approved contractors
Registered specialist contractors under the foundation works category	129
Registered specialist contractors under the site formation category	170
Registered specialist contractors under the ground investigation field works category	42

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Comparatively, there were 647 registered general building contractors that were permitted to undertake any general building works as at 17 September 2012. Our Directors consider that our Group's major competitors in the private sector are Gammon Construction Limited, Tysan Foundation Limited (subsidiary of Hong Kong listed company) and Kin Wing Engineering Company Limited and based on our Directors' industry knowledge, we believe these competitors can achieve better economy of scale through higher construction capacity than our Group.

As mentioned above, the construction contracts income of our Group for the year ended 31 March 2012 represented approximately 2.5% of the gross value of piling and related foundation works performed by main contractors at construction sites in Hong Kong. Since approximately 90.1% of our construction contracts income was generated from private projects for the year ended 31 March 2012, our Group's market share for private sector foundation works for the year ended 31 March 2012 was estimated to be more than 2.5%. Having considered the construction outputs of the public and private sectors as discussed in the above paragraph headed "Public sector", we consider that the above is a fair estimate of our Group's market share in our private sector foundation works.

Entry barriers

Our Directors believe that the foundation works business, in particular, large diameter bored piling works, is technology and capital intensive. Accordingly, it requires specialist knowledge and substantial initial and continual capital for setting up and maintaining the specialised machinery, thus creating a barrier to entry in the bored piling industry. With our own machinery, specialist knowledge and sound working capital, our Directors believe that we are at a very competitive position in the industry. A thorough understanding and knowledge of the ground conditions of Hong Kong is essential for producing a competitive foundation design and an effective and efficient construction method. In this respect, the foundation business is unlike superstructure/building construction. Our Directors believe that these requirements have created barriers against international and local contractors who wish to take part in the foundation construction business in Hong Kong.

INTELLECTUAL PROPERTY RIGHTS

We have marketed our business in Hong Kong using  and Sunley as our brand name, and the registration of our trademarks in Hong Kong has been granted on 11 October 2011. Detailed information of our intellectual property rights is set out in the section headed "Intellectual property rights of our Group" in Appendix V to this prospectus.

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EMPLOYEES

As at 31 July 2012, we had a total of 164 full-time employees that were directly employed by our Group. A breakdown of our employees by function as at the same date is set forth below:

	As at 31 July 2012
Project management	23
Administration, accounting and finance	12
Design engineering	6
Direct workers	<u>123</u>
Total	<u><u>164</u></u>

Our Directors believe that the relationship and co-operation between our management and our employees has been good and we have not experienced any incidence of work stoppage or labour dispute, nor have we experienced any significant turnover in employees during the Track Record Period.

We believe that our employees are important assets to our Group. New employees are required to undergo training to familiarise themselves with the rules and regulations of our Group and the requirements of their job before they start work. They are also subject to a 3-month probation period. At the end of the probation period, they will be confirmed as full-time employees if their respective supervisors are satisfied with their performance during the probationary period.

We also place emphasis on the continuing education and training of our staff. In particular, we focus on training our management and key personnel to develop their management and decision-making abilities to enhance their work performance. We encourage a culture of learning and education in our Group and we sponsor our employees to attend external training programmes to acquire advanced knowledge and skills in technology and management.

The remuneration package we offer to our employees includes salary, bonuses and allowances. In general, we determine employee salaries based on the individual's qualifications, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions. Our employee benefits expense including Directors' emoluments (including salaries, wages and allowances and retirement benefit costs) amounted to approximately HK\$8.0 million, HK\$38.7 million and HK\$63.8 million for each of the years ended 31 March 2010, 2011 and 2012 respectively.

PROPERTIES

We do not own any property and lease all of the premises occupied by us. As at the Latest Practicable Date, we had three leased properties located in Hong Kong. Two of these properties are occupied by us as our offices while the remaining one is occupied by us for storage of machinery and equipment. Save for the office space leased from Super Ease and Sunnic Holdings, the details of which are set out under the section headed "Connected Transaction", the landlords of the remaining premises are Independent Third Parties. Please refer to the section headed "Property Valuation" in Appendix III to this prospectus for further information of our leased properties.

LITIGATION, ARBITRATION AND POTENTIAL CLAIMS

In the ordinary and usual course of our Group's business, it is not uncommon for our Group to have disagreements with our customers in relation to, for example, the final contract sum due to the complex contractual terms, uncertainties in the underground situation of constructions sites and natural elements such as inclement weather which may delay the progress of construction works. These disagreements with customers are usually resolved through negotiations between our Group and our customers. Our Group had certain disputes with a single customer in relation to the First Project and the Second Project which were completed in 2001 and 2003 respectively which were resolved through recovery proceedings. The disputes in relation to the First Project had certain financial impacts on our Group before the Track Record Period, while the disputes in relation to the Second Project had certain financial impacts on our Group before and within the Track Record Period. Further information of such financial impacts are discussed in the section headed "Financial Information" of this prospectus. Save for the contractual disputes in relation to the Second Project, neither the Company nor any of our Group's members had material dispute, arbitration or legal proceedings with other customers during the Track Record Period.

In respect of the First Project, there were a series of stringent measures implemented by the customer for supervising the construction works which were not set out in the contract document of the First Project. Due to the additional works carried out by our Group as a result of the above measures, there were much delays and additional costs incurred by our Group. Contractual disputes in relation to the First Project (the "**First Contractual Dispute**") arose in different stages mainly due to the variation works and extension of time claims in relation to the First Project performed by our Group resulting in disputes over the outstanding balance due under the final account of the First Project. Both in 2006, formal demand for the outstanding balance due under the final account of the First Project amounting to approximately HK\$59 million which mainly represented the value of the additional works performed were made by our Group to the customer and liquidated damages amounting to approximately HK\$94 million were alleged by the customer against our Group on the ground that the works were not completed within the time for completion as prescribed under the contract of the First Project. The recovery proceedings in relation to the First Contractual Dispute commenced in late 2006 and were settled in late 2008. For the First Project, prior to the Track Record Period, our Group had recognised the total revenue as agreed in the original contract amounted to approximately HK\$73.7 million and the relevant construction costs incurred for the project upon the completion of the construction work in 2001. For the financial year ended 31 March 2009, as a result of the recovery measures, our Group reversed the claim provision of HK\$35 million made in prior years and recorded the amount of HK\$20 million finally yielded by our Group as revenue.

In respect of the Second Project, there were similarly much delays and additional costs incurred by our Group caused by, amongst others, the unforeseen adverse ground conditions and the substantial increase in pre-boring works. Contractual disputes in relation to the Second Project (the "**Second Contractual Dispute**") arose mainly on the variation works and refund of liquidated damages relating to the Second Project resulting in disputes over the outstanding balance due under the final account of the Second Project. The outstanding amount due and payable by the customer under the Second Project as alleged by our Group amounting to approximately HK\$49.8 million which comprised mainly additional works and refund of liquidated damages. On the other hand, the customer alleged against our Group for an amount of approximately HK\$28.3 million mainly for additional liquidated damages on the ground that the works were not completed within the time for completion as prescribed under the

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contract of the Second Project. The recovery proceedings in relation to the Second Contractual Dispute commenced in late 2006 and were settled in mid 2011. For the Second Project, prior to the Track Record Period, our Group had recognised the total revenue as agreed in the original contract amounted to approximately HK\$157.0 million and the relevant construction costs incurred for the project upon the completion of the construction work in 2003. For the financial year ended 31 March 2009, our Group recorded a net expense of HK\$11.2 million as provision for claims. For the financial year ended 31 March 2011, our Group reversed the provision for claims of HK\$11.2 million and recorded an estimated additional income of HK\$6.4 million after taking into account the advice from our legal counsel and contract consultant about the likelihood of success of the recovery measures. Further information of the financial impact are discussed in the section headed “Financial information” of this prospectus.

To minimise the chances of, and to protect our Group’s interest in the event of any possible disputes arising in the future, our Director, Mr. Ho Chi Ling, has obtained a Master of Arts in Arbitration and Dispute Resolution in 2009 and our Group from time to time engages a construction contracts consultant company to assist our Group in handling potential claims or disputes. The construction contracts consultant company provides consultancy services to our Group for dealing with variations, extension of time claims and monetary claims by reviewing the relevant correspondences, contract documents and providing contractual and commercial advice. Save for the contractual disputes in relation to the Second Project, we did not have any material disputes, arbitrations or legal proceedings with other customers during the Track Record Period. Our Directors and the Sponsor are of the view that such measures are reasonably adequate to protect our Group’s interest should a future dispute arise.

Set out below are the details of the outstanding and potential claims, litigations and arbitrations against our Group as at the Latest Practicable Date and the claims, litigations and arbitrations against our Group settled (whether by way of court judgment or award or settlement) during the Track Record Period and up to the Latest Practicable Date apart from the recovery proceedings in relation to the Second Project. Save for one miscellaneous claim in relation to debt of which the settled amount was not significant, all of the following claims and litigations are related to employees’ compensation claims and personal injuries claims arising out of our Group’s ordinary and usual course of business and are not related to any disputes with the customers of our Group. Save as disclosed below, our Directors and our legal advisers as to litigation in Hong Kong confirmed that there are no other claims against our Group during the Track Record Period and up to the Latest Practicable Date.

Our Group’s liabilities in a case of personal injury include those under (i) the Employees’ Compensation Ordinance (“**ECO**”); and (ii) common law, i.e. personal injury claim.

ECO is a no fault system and gives employees the right to compensation in respect of (i) injuries or death caused by accidents arising out of and in the course of employment, or (ii) by prescribed occupational diseases under the ECO. In assessing compensation the Court is not concerned with whether the employers are to be blamed for the accident and will apply the formulae as stipulated in the ECO. The relevant factors are the age of the injured, his monthly earnings, and in non-fatal cases, the percentage of permanent loss of earning capacity.

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Claim for damages under common law arises if our Group is at fault. In assessing common law claims damages, the principle is to award a sum of money which will put the party who has been injured to the same position as he would have been in if he had not sustained the wrong. The Court will take into account, among others, hospital expenses, pain and suffering and loss of amenities, loss of pre-trial earnings, prospect of resumed employment and loss of future earnings. In cases of very serious injuries, the Court will also assess the future needs of the plaintiff, such as medical and special accommodation needs. Lastly, the damages awarded under common law claims shall be reduced by the value of the compensation paid or payable under the ECO in any event. In regard to any potential, outstanding or settled claims and litigations, our Group regards employees' compensation claims and personal injuries claims for damages under common law as a whole in assessing the amount of claims. Our Group did not incur legal expenses associated with the employee's compensation and personal injuries claims as such legal expenses are covered by our Group's insurance policies.

(I) Outstanding employees' compensation claims and personal injuries claims arising from accidents against our Group as at the Latest Practicable Date:

- 1. Court Action Number:** HCPI 363/2012

**Names of Plaintiff(s)/
Claimant(s):** Younas Mehboob

**Names of Defendant(s)/
Respondent(s):** Sunnic Engineering Limited
Chun Sing Engineering Company Limited

Circumstances given rise to: On site worker personal injuries for an accident occurred on 6 May 2010.

**Amount of Claim/
Estimated Quantum of
Damages Claimed:** The amount claimed is not available.

Status: The proceedings are still in progress and therefore have not been settled. There is a written confirmation by the insurer of its taking over of the proceedings.

- 2. Court Action Number:** DCCJ 4903/2009

**Names of Plaintiff(s)/
Claimant(s):** Ho Fat Machinery Hired and Transportation Company Limited
c/o Lau Chan & Ko

**Names of Defendant(s)/
Respondent(s):** Sunley Engineering and Construction Company Limited
Lui Yuk Kwan

Circumstances given rise to: On site worker personal injuries for an accident occurred on 19 November 2003.

**Amount of Claim/
Estimated Quantum of
Damages Claimed:** HK\$228,702.57

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Status:

The writ of summons was issued on 18 November 2009, which was after the Plaintiff's dissolution on 4 May 2007. Our legal advisers as to litigation in Hong Kong advised that this court action was commenced irregularly and therefore our Group's liability will not materialize. Further, since the relevant statutory limitation period had expired, there will not be any other proceedings against Sunley in relation to this incident. As such, Sunley will not be liable for any compensation, legal costs and other expenses.

Notes:

- (1) The employees' compensation claims and personal injuries claims under this category (other than the above court action which was commenced irregularly) were fully covered by insurance. The claims are dealt with and handled by the insurers and our Group does not have the details of the claims except the particulars set out above according to its best knowledge, information and belief.
- (2) The number of employees of our Group involved in each of the above outstanding claims is one.

(II) Potential employees' compensation claims and personal injuries claims arising from accidents against our Group as at the Latest Practicable Date:

As confirmed by our Directors, as at the Latest Practicable Date, there were 21 potential claims. Among these 21 potential claims, 19 are in relation to our Group's employees, and the remaining two potential claims are in relation to employees of our subcontractors. They were still on sick leave for their injuries (the period of occurrence of the relevant incidents was from 17 September 2009 to 3 July 2012). To the best and latest knowledge of the Directors, one of these 21 employees suffered a serious injury caused by equipment handling (included as item 5 in the summary below), which may be a material claim. Since no civil action relating to the serious injury has been commenced as at the Latest Practicable Date, the claimed amount cannot be ascertained and is therefore only included as one of the potential claims herein. Our Group considers "material claim" to be claims with amount in excess of HK\$1,000,000. Out of the 21 potential claims, the employees' compensation claims of 11 injured employees had been fully settled in the aggregate amount of HK\$660,740.45 while one was settled by court judgement in the amount of HK\$120,000, but the relevant personal injuries actions have not been commenced. As for the other nine injured employees, the employees' compensation claims and/or personal injuries actions have both not been commenced. Such claims are within the limitation period of three years from the date of the relevant incidents. As such claims have not been commenced, we are not in a position to assess the likely quantum of such potential claims. In any event, our Group has insurance cover for its liabilities of all these potential claims and outstanding claims as at the Latest Practicable Date, notices of all the accidents had been given to the insurers. For the 21 potential claims for which the injured were deemed employees of our Group, either directly employed by our Group or by our Group's sub-contractors, they would be fully covered by the mandatory insurance. As the potential liability under each claim would be less than the statutory minimum insurance coverage of HK\$100 million, which is on a per incident basis, under Section 40 and Fourth Schedule of the ECO, our Directors confirmed that our Group's liabilities under all the outstanding and potential employees' compensation claims and personal injuries actions are

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sufficiently covered by insurance. These accidents were caused during the usual and ordinary business of our Group and have not caused disruption to our Group's business. No penalty was imposed by the government authority on our Group, directors or senior management as a result of these injuries. Summary of the potential claims are as follows:

Item	Nature	No.
<i>Employees' compensation claims had been settled but personal injuries action has not been commenced</i>		
1.	Injured by equipment handling	7
2.	Slipped and fell	5
<i>Neither employees' compensation claim nor personal injuries action have been commenced</i>		
3.	Fell from working platform	2
4.	Slipped and fell	1
5.	Injured by equipment handling	4
6.	Injured by falling object	2

Note: The number of employees involved in each of the above potential claims is one.

Our Directors confirmed that the injuries suffered by the employees under the said 21 potential claims generally arose from two major causes, (1) accidents; and (2) failure by subcontractors to take adequate steps to ensure safety of employees. For safety guidance, our Group may provide to our subcontractors a copy of our "Safety Rules".

Subject to the latest safety regulations as stipulated by the relevant governmental departments, details of the "Safety Rules" are summarised as follows:

- (i) safety gears such as helmets, footwear, safety belts must be provided to all subcontractors' employees;
- (ii) plants and equipment must be handled in accordance with the laws of Hong Kong, electrical wires must be properly hung up and earthed, moving parts of all machineries must be fitted with protective guards;
- (iii) dangerous or chemical substances must be stored in a safe and ventilated place;
- (iv) if guardrails, chains and folding doors are required to be removed for the ease of carrying out of works, they must be reinstalled immediately after removal;

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- (v) prior to their use, all machineries must be examined to ensure compliance with the statutory requirements;
- (vi) regular safety report forms must be submitted for works involving foundation excavation, machinery delivery, scaffolding, etc., in accordance with the laws of Hong Kong;
- (vii) one full time safety supervisor must be on-site for every site with 20 staff;
- (viii) all accidents must be reported immediately;
- (ix) site safety meetings must be attended;
- (x) the sub-contractor's staff must attend the Labour Department's "Mandatory Safety Training" and our Group's training session;
- (xi) regular inspections shall be conducted and administrative fees shall be levied in case of non-compliance; and
- (xii) all the workers will check the safety equipment when they start working every day, and the supervisors will inspect the safety equipment during the bi-weekly site inspection.

(III) Employees' compensation claims and personal injuries claims arising from accidents against our Group fully settled by our Group (whether by way of court judgment or award or settlement) during the Track Record Period and up to the Latest Practicable Date:

During the Track Record Period and up to the Latest Practicable Date, our Group had settled four claims and litigations arising from accidents with an aggregate settled amount of HK\$912,492.50. Among these four claims, three cases were in relation to our Group's employees, and one claim was in relation to an employee of our subcontractor. These four cases were fully covered by insurance. Two of these four claims involved accidents that occurred before the Track Record Period. Set out below are the details of the settled claims:

Item	Nature	Settled Amount HK\$
1.	Employees' compensation claim for worker's onsite injuries	130,000.00
2.	Employees' compensation claim for worker's onsite injuries	120,000.00
3.	Employees' compensation claim and common law claim for worker's onsite injuries	147,492.50
4.	Employees' compensation claim and common law claim for worker's onsite injuries	515,000.00
Total:		\$912,492.50

Note: The number of employee involved in each of the above claims is one.

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Apart from the above, since the Track Record Period and up to the Latest Practicable Date, our Group had settled one miscellaneous claim in relation to debt. The amount settled was not significant. There was no claim, litigation and arbitration which was individually or collectively material to our Group and not in the ordinary and usual course of our Group's business. No Directors/senior management of our Group were/would be held liable to those claims, litigations and arbitrations.

Our Directors are of the view, and the Sponsor concurs, that occurrences of personal injuries, property damages or fatal incidents is not uncommon in the construction industry.

Our Group has put in place various measures to enhance safety standard, avoid work related accidents and minimise our risk in breaches of statutory provisions. These measures implemented by our Group include (i) implementation of "*Safety Rules*" to all construction sites (the details of which are summarised above); (ii) provision of internal training sessions as there are new update on safety regulations to all employees of our Group and sub-contractors of all tiers by supervisors attending external safety and accident prevention training course organised by the Occupation Safety and Health Council; (iii) deployment of site staff to conduct regular bi-weekly site inspections to ensure compliance with statutory provisions; (iv) the safety manager and/or the safety supervisor conducts daily inspection to confirm the works are carried out according to safety requirements; (v) safety induction training for all labours (including subcontractors') before they can commence work on site; (vi) specific trainings such as fire drill, first aid drill and chemical leak drill conducted once every three months; (vii) tool box talks which focus on specific trades or activities such as safe lifting and working at height generally given by the safety manager and/or the safety supervisor to workers on a weekly basis to enhance safety and health awareness amongst labours; and (viii) risk assessment for piling works carried out by the safety manager and/or the safety officer before commencement of works to identify hazards and methods to control such risk.

Since September 2012, our Group has hired a full time safety manager and an assistant safety officer who are in charge of safety at our construction sites. In addition, our Group also has 17 employees who have completed safety supervisor training to compliment the safety supervision by our safety manager and assistant safety officer. In case of the occurrence of accident, both the site agent and the safety manager bear the responsibility of handling the case.

Furthermore, since 2005 our Group has engaged a safety, health, environment and quality consultant company which provided a competent person during each project period to, amongst other things, (a) conduct underground utility detection report(s); (b) provide detection equipment; (c) conduct site visits and surveys; and (d) prepare and endorse cable detection report(s). The competent person provided is a person approved by the director of the Electrical and Mechanical Services Department ("**EMSD**"). Pursuant to section 3 of the Electricity Supply Lines (Protection) Regulations (Cap 406H) ("**ESLR**"), that competent person (i) has attended and passed a course approved by the EMSD for the purpose of ESLR; and (ii) has a minimum of 6 months practical experience in locating underground utilities; or (iii) has been approved by the EMSD of having the knowledge and practical experience capable of carrying out the work of locating underground electricity cables in a competent manner.

Prior to hiring the safety manager, the consultant company has provided a safety officer on an ongoing basis to (1) maintain site safety, and (2) assist in (i) preparing risk assessment, (ii) conducting safety inspection, (iii) providing safety training, (iv) preparing safety plan, (v) conducting accident report and (vi) following up with the Labour Department for safety issues. After the hiring of our Group's safety manager, the consultant company has provided the safety officer as required by our Group to supplement the work of the safety manager. Each of the safety manager and safety officer is a

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person approved by the Commissioner for Labour of the Labour Department, pursuant to the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations (Cap. 59), and who holds a (i) recognised degree or post-graduate diploma in occupational safety and health and relevant experience of not less than 1 year; or (ii) a degree in science or engineering, and a recognised certificate, diploma or higher diploma in occupational safety and health, and relevant experience of not less than 1 year; or (iii) a recognised certificate, diploma or higher diploma in occupational safety and health, and relevant experience of not less than 2 years, of which 1 year must be obtained after the academic qualification; or (iv) a recognised certificate in construction safety and relevant experience of not less than 2 years, of which 1 year must be obtained after the academic qualification.

The competent persons and safety officers provided are employees of the consultant company and are not employees of our Group.

In March 2012, an accident occurred on one of our Group's construction sites which has resulted in serious injury to 1 worker and non-serious injury to 3 other workers. The accident arose out of a widely adopted industry practice to carry out a procedure for many years. Subsequent to the accident, our Group has, together with the Labour Department and the consultant company, worked out a revised method to carry out the relevant procedure which has been approved by the Labour Department. Furthermore, our Group has organised a special safety training in April 2012 after this accident to specifically discuss with frontline workers on improving the method of construction and additional safety measures with regard to the aforementioned accident and our Group has applied the revised method to all of our current construction sites (where applicable) to further mitigate the safety risks. Our Group expects similar special safety meetings will be held after the occurrence of incidents of similar magnitude. Also in response to the aforementioned accident, our Group has hired a full time safety manager in September 2012 to further strengthen our Group's safety systems and measures. Our Group has received two summonses dated 29 August 2012 for respective charges laid by the Labour Department in relation to the aforementioned accident. Please refer to the paragraph headed "Compliance" in this section for further details.

Going forward, we will continue to adhere to these measures to prevent future breaches of statutory provisions.

Although accidents still occurred subsequent to the engagement of the safety, health, environment and quality consultant company in 2005, having considered that (i) due to the nature of works in the construction industry, risks of accidents or injuries to workers are inherent; (ii) no safety measure can completely eliminate the occurrence of accidents or injuries to workers; (iii) no fatal accident has occurred on the sites for which we were responsible; (iv) the accident rate for injuries on our site was generally lower than that of the construction industry as illustrated by the figures set out under the paragraph headed "Safety and insurance" in this section; and (v) save for the pending litigation in relation to charges laid by the Labour Department in connection with the accident that occurred in March 2012 which has not resulted in conviction as at the Latest Practicable Date, our Group has not faced any statutory breaches after 2005, our Directors and the Sponsor are of the view that measures implemented by our Group are adequate and effective.

Save as disclosed above and the paragraph headed "Compliance" of this section, no member of our Group was engaged in any claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.