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## **FINANCIAL INFORMATION**

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*You should read this section in conjunction with the Group's audited combined financial statements, including the notes thereto, as set forth in the Accountant's Report in Appendix I to this [REDACTED]. The Accountant's Report has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountant's Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect of future events and financial preformation. These statements are based on assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and projections depends on a number of risks and uncertainties over which the group does not have control. For further information, please refer to the section headed "Risk factors" in this [REDACTED].*

### **OVERVIEW**

The Group is a subcontractor that focuses on providing podium facade and curtain wall works in Hong Kong with a history of over 20 years. The services provided by the Group mainly include one-stop design and build solution in relation to podium facade and curtain wall works. To a lesser extent, the Group also provides repair and maintenance services. During the Track Record Period, the Group generally undertook design and build projects as a subcontractor and all of the Group's revenue was derived from Hong Kong. The Group's customer types primarily include main contractor, property developer, commercial enterprise and public body.

For each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group's total revenue amounted to approximately HK\$151.3 million, HK\$218.8 million and HK\$203.6 million, respectively. Of such amount, approximately 90.9%, 96.0% and 96.9% was attributable to the Group's design and build projects, respectively, while the remaining approximately 9.1%, 4.0% and 3.1% was attributable to the Group's repair and maintenance services.

The Group recorded gross profit of approximately HK\$50.4 million, HK\$71.1 million and HK\$66.2 million for each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, respectively. The Group recorded profit for the year/period of approximately HK\$31.3 million, HK\$46.5 million and HK\$41.7 million for each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, respectively. For further details, please refer to the sub-sections headed "Principal components of results of operations" and "Comparison of results of operations" in this section.

### **BASIS OF PRESENTATION**

Prior to the [REDACTED], the Group had undergone the Reorganisation after which the Company has become the holding company of the Group since [●] 2017. Please refer to the section headed "History, Reorganisation and corporate structure — Reorganisation" in this [REDACTED] for details.

The financial information set out in the Accountants' Report in Appendix I to this [REDACTED] has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the Track Record Period.

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The combined statements of comprehensive income and combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of the companies now comprising the Group as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, whichever was shorter. The combined statements of financial position of the Group as at 31 December 2014 and 2015 and 30 September 2016 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates. For further details, please refer to note 2 in the Accountant's Report set out in Appendix I to this [REDACTED].

### **KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATION AND FINANCIAL CONDITION**

The Group's financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set out below and in the section headed "Risk factors" in this [REDACTED].

#### **Demand for design and build services for podium facade and curtain wall in Hong Kong**

The Group's business performance is mainly affected by the number and availability of design and build projects for podium facade and curtain wall in Hong Kong, which in turn are affected by various factors, including but not limited to, the general economic conditions in Hong Kong, changes in the government policies in relation to the Hong Kong property market, the amount of investment in the construction of new commercial and residential buildings and improvement of existing commercial and residential buildings. These factors may affect the demand for the design and build services of the Group. Unfavourable changes in these factors may lead to a decrease in demand for the design and build services of the Group.

There is no assurance that the number of design and build projects for podium facade and curtain wall in Hong Kong will not decrease in the future. In the event that the demand for design and build services decreases as a result of the reduction in the number of podium facade and curtain wall projects in Hong Kong, the Group's businesses in general and the results of operations may be adversely and materially affected.

#### **Accuracy in the estimation of time and costs involved in projects before submitting tenders or providing fee quotations**

The design and build projects undertaken by the Group are generally awarded by its customers after they accept the tender submitted or quotation provided by the Group, where the Group has to estimate the time and costs involved in a design and build project in order to determine the fee for the tender or quotation. The Group generally determines the price of its projects on an estimated project costs plus a mark-up margin. The Group's pricing on its projects is evaluated on a project-by-project basis depending on several factors, including but not limited to, (i) the nature or type of the design and projects; (ii) the costs budget; (iii) the target completion date; (iv) the Group's projects on hand; (v) the availability of the Group's resources; and (vi) scale of the project.

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There is no guarantee that the actual amount of time and costs involved in a design and build project must be similar to the estimation and they can be adversely affected by various factors, such as weather conditions, accidents, delay in obtaining approval and other unforeseen site conditions, departure of key project management and supervision personnel involved, sub-standard performance by the Group's subcontractors, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a design and build project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect the Group's financial performance and liquidity.

### **Supply and cost of materials and processing services**

The Group's material and processing charges amounted to approximately HK\$36.3 million, HK\$60.2 million and HK\$56.1 million, respectively, representing approximately 36.0%, 40.8% and 40.8% of the Group's total cost of revenue during each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, respectively.

The supply and cost of materials and processing services are affected by macroeconomic conditions, production quantity and cost of such materials. Fluctuation in foreign exchange rates may also affect the Group's cost of materials since some of the Group's suppliers are located outside Hong Kong and the PRC. There is no assurance that the supply and cost of materials and processing services will remain stable. In the event that the cost of materials and processing services increase due to external factors, which are out of the Group's control, the Group's operations and profitability may be adversely affected.

### **Performance and availability of subcontractors**

As the Group does not employ any direct labour to carry out the installation works for its design and build projects, the Group subcontracts the installation works to external subcontractors. The Group's subcontracting charges amounted to approximately HK\$35.8 million, HK\$57.3 million and HK\$54.7 million, respectively, representing approximately 35.5%, 38.8% and 39.8% of the Group's total cost of revenue for the corresponding year/period, respectively.

The Group is liable for the works performed by its subcontractors. In each project, the Group generally selects two or more subcontractors from the approved list based on their relevant skillsets and experiences and invites them to make a quotation. The Group will then select the most suitable subcontractor for the project based on, including but not limited to, their availability, fee quotation, proposed delivery time and other commercial and technical terms. However, there is no guarantee in the availability of subcontractors or the work performance of the chosen subcontractors. In the event that the Group is not able to secure suitable subcontractors at an acceptable fee or the works performed by the Group's subcontractors are not up to standard, the Group may incur extra costs and hence its financial performance and reputation may be affected adversely.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The discussion and analysis of the Group's financial position and results of operations as included in this [REDACTED] is based on the combined financial statements prepared using the significant accounting policies set forth in note 3 of the Accountant's Report set out in Appendix I to this [REDACTED], which conform with the HKFRSs.

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In the application of the Group's accounting policies, the Directors are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. For further details, please refer to note 5 of the Accountant's Report set out in Appendix I to this [REDACTED].

**SUMMARY OF RESULTS OF OPERATIONS**

The Group's combined statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this [REDACTED]. As such, the following sections should be read in conjunction with the Accountant's Report set out in Appendix I to this [REDACTED].

	<b>Year ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
<b>Revenue</b>	151,304	218,820	150,890	203,598
Cost of revenue	<u>(100,911)</u>	<u>(147,753)</u>	<u>(97,661)</u>	<u>(137,443)</u>
<b>Gross profit</b>	50,393	71,067	53,229	66,155
Other income, gains and losses	544	588	438	14
Administrative and other operating expenses	(13,274)	(14,141)	(10,321)	(13,597)
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Finance costs	<u>(324)</u>	<u>(466)</u>	<u>(340)</u>	<u>(322)</u>
<b>Profit before income tax</b>	37,339	55,863	43,006	50,562
Income tax expense	<u>(6,074)</u>	<u>(9,371)</u>	<u>(7,116)</u>	<u>(8,835)</u>
<b>Profit for the year/period</b>	<u>31,265</u>	<u>46,492</u>	<u>35,890</u>	<u>41,727</u>

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	Year ended 31 December		Nine months ended 30 September	
	2014	2015	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
<b>Other comprehensive income</b>				
Items that may be subsequently reclassified to profit or loss:				
- Change in fair value of available-for-sale investments	(74)	—	(266)	—
- Reclassification on impairment of available-for-sale investments	66	—	—	—
- Release upon disposal of available-for-sale investments	(133)	(37)	—	—
- Exchange difference arising from translation of foreign operation	—	—	—	(22)
	<u>(141)</u>	<u>(37)</u>	<u>(266)</u>	<u>(22)</u>
<b>Total comprehensive income for the year/period</b>	<u>31,124</u>	<u>46,455</u>	<u>35,624</u>	<u>41,705</u>
<b>Total comprehensive income for the year/period attributable to:</b>				
Owners of the Company	30,612	46,131	35,434	41,680
Non-controlling interests	<u>512</u>	<u>324</u>	<u>190</u>	<u>25</u>
<b>Total comprehensive income for the year/period</b>	<u>31,124</u>	<u>46,455</u>	<u>35,624</u>	<u>41,705</u>

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**PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS**

**Revenue**

The Group is a subcontractor that focuses on providing podium facade and curtain wall works in Hong Kong with a history of over 20 years. The services provided by the Group mainly include one-stop design and build solution in relation to podium facade and curtain wall works. To a lesser extent, the Group also provides repair and maintenance services. During the Track Record Period, the Group generally undertook design and build projects as a subcontractor and all of the Group's revenue was derived from Hong Kong. The following table sets forth a breakdown of the Group's revenue during the Track Record Period by types of services:

	<b>Year ended 31 December</b>				<b>Nine months ended 30 September</b>			
	<b>2014</b>		<b>2015</b>		<b>2015</b>		<b>2016</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	<i>(unaudited)</i>							
Design and build projects								
- Podium facade and related works	121,332	80.2	195,998	89.6	135,116	89.6	175,317	86.1
- Curtain wall works	<u>16,252</u>	<u>10.7</u>	<u>13,998</u>	<u>6.4</u>	<u>11,350</u>	<u>7.5</u>	<u>22,008</u>	<u>10.8</u>
<b>Sub-total</b>	137,584	90.9	209,996	96.0	146,466	97.1	197,325	96.9
Repair and maintenance services	<u>13,720</u>	<u>9.1</u>	<u>8,824</u>	<u>4.0</u>	<u>4,424</u>	<u>2.9</u>	<u>6,273</u>	<u>3.1</u>
<b>Total</b>	<u><u>151,304</u></u>	<u><u>100.0</u></u>	<u><u>218,820</u></u>	<u><u>100.0</u></u>	<u><u>150,890</u></u>	<u><u>100.0</u></u>	<u><u>203,598</u></u>	<u><u>100.0</u></u>

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### Cost of revenue

Cost of revenue of the Group primarily comprises (i) material and processing charges; (ii) subcontracting charges; (iii) project staff costs; and (iv) others. The following table sets forth a breakdown of the Group's cost of revenue during the Track Record Period:

	Year ended 31 December		2015		Nine months ended 30 September		2016	
	2014	2015	2015	2016	2015	2016	2015	2016
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Material and processing charges	36,314	36.0	60,249	40.8	41,994	43.0	56,088	40.8
Subcontracting charges	35,791	35.5	57,337	38.8	33,555	34.4	54,736	39.8
Project staff costs	13,648	13.5	16,137	10.9	12,446	12.7	17,145	12.5
Others	15,158	15.0	14,030	9.5	9,666	9.9	9,474	6.9
<b>Total</b>	<u>100,911</u>	<u>100.0</u>	<u>147,753</u>	<u>100.0</u>	<u>97,661</u>	<u>100.0</u>	<u>137,443</u>	<u>100.0</u>

#### (i) Material and processing charges

Material and processing charges represent the charges paid and payable to the Group's suppliers for the purchase of building and construction materials being installed/utilised in the Group's design and build projects and relevant processing charges. For each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, material and processing charges of the Group amounted to approximately HK\$36.3 million, HK\$60.2 million and HK\$56.1 million, respectively, representing approximately 36.0%, 40.8% and 40.8% of the Group's total cost of revenue for the corresponding year/period, respectively.

The following table sets forth a breakdown of the Group's material and processing charges by types of materials:

	Year ended 31 December		2015		Nine months ended 30 September		2016	
	2014	2015	2015	2016	2015	2016	2015	2016
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Aluminium	15,554	42.9	26,711	44.3	17,931	42.7	27,349	48.7
Metal	9,385	25.8	17,699	29.4	12,591	30.0	12,089	21.6
Glass	5,973	16.4	6,557	10.9	5,067	12.1	7,948	14.2
Silicone sealant	1,181	3.3	1,977	3.3	1,318	3.1	2,292	4.1
Others	4,221	11.6	7,305	12.1	5,087	12.1	6,410	11.4
	<u>36,314</u>	<u>100.0</u>	<u>60,249</u>	<u>100.0</u>	<u>41,994</u>	<u>100.0</u>	<u>56,088</u>	<u>100.0</u>

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's material and processing charges on its profits during the Track Record Period. The hypothetical fluctuation rates are set at 3% and 4.5% with reference to the annual rates of change in the consumer price indices in Hong Kong during 2011 to 2015 as published by Census and Statistics Department Hong Kong Special Administrative Region:

**Hypothetical fluctuations in material and processing charges**

	<b>+3%</b>	<b>+4.5%</b>	<b>-3%</b>	<b>-4.5%</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Change in profit before tax for:</b>				
the year ended 31 December 2014	-1,089	-1,634	+1,089	+1,634
the year ended 31 December 2015	-1,807	-2,711	+1,807	+2,711
the nine months ended 30 September 2016	-1,683	-2,524	+1,683	+2,524
<b>Change in profit after tax (Note) for:</b>				
the year ended 31 December 2014	-909	-1,364	+909	+1,364
the year ended 31 December 2015	-1,509	-2,264	+1,509	+2,264
the nine months ended 30 September 2016	-1,405	-2,108	+1,405	+2,108

*Note:* The Hong Kong Profits Tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year/period

*(ii) Subcontracting charges*

Subcontracting charges represent the charges paid and payable to the Group's subcontractors who provide installation services at site for its design and build projects and repair and maintenance works. For each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, subcontracting charges of the Group amounted to approximately HK\$35.8 million, HK\$57.3 million and HK\$54.7 million, respectively, representing approximately 35.5%, 38.8% and 39.8% of the Group's total cost of revenue for the corresponding year/period, respectively.



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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting charges on its profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 16% with reference to the fluctuation in the average wage of workers in the construction industry in Hong Kong during 2011 to 2015 as shown in the Ipsos Report:

**Hypothetical fluctuations in subcontracting**

<b>charges</b>	<b>+5%</b>	<b>+16%</b>	<b>-5%</b>	<b>-16%</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Change in profit before tax for:</b>				
the year ended 31 December 2014	-1,790	-5,727	+1,790	+5,727
the year ended 31 December 2015	-2,867	-9,174	+2,867	+9,174
the nine months ended 30 September 2016	-2,737	-8,758	+2,737	+8,758
<b>Change in profit after tax (Note) for:</b>				
the year ended 31 December 2014	-1,495	-4,782	+1,495	+4,782
the year ended 31 December 2015	-2,394	-7,660	+2,394	+7,660
the nine months ended 30 September 2016	-2,285	-7,313	+2,285	+7,313

*Note:* The Hong Kong Profits Tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year/period

*(iii) Project staff costs*

Project staff costs represent the compensation and benefits provided to the staff of the Group's project management team and design team. For each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, project staff costs of the Group amounted to approximately HK\$13.6 million, HK\$16.1 million and HK\$17.1 million, respectively, representing approximately 13.5%, 10.9% and 12.5% of the Group's total cost of revenue for the corresponding year/period, respectively.

*(iv) Others*

Others mainly represent design fee, scaffolding and platform, insurance, inspection and testing fee and transportation costs etc. For each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, other cost of revenue of the Group amounted to approximately HK\$15.2 million, HK\$14.0 million and HK\$9.5 million, respectively, representing approximately 15.0%, 9.5% and 6.9% of the Group's total cost of revenue for the corresponding year/period, respectively.

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### Gross profit

The following table sets forth a breakdown of the Group's gross profit and gross profit margin during the Track Record Period by types of services:

	Year ended 31 December				Nine months ended 30 September			
	2014		2015		2015		2016	
	<i>Gross profit margin</i>		<i>Gross profit margin</i>		<i>Gross profit margin</i>		<i>Gross profit margin</i>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Design and build projects								
- Podium facade and related works	42,607	35.1	62,931	32.1	47,058	34.8	58,313	33.3
- Curtain wall works	4,563	28.1	5,035	36.0	4,376	38.6	5,467	24.8
<b>Sub-total/overall</b>	<u>47,170</u>	<u>34.3</u>	<u>67,966</u>	<u>32.4</u>	<u>51,434</u>	<u>35.1</u>	<u>63,780</u>	<u>32.3</u>
Repair and maintenance services	<u>3,223</u>	<u>23.5</u>	<u>3,101</u>	<u>35.1</u>	<u>1,795</u>	<u>40.6</u>	<u>2,375</u>	<u>37.9</u>
<b>Total/overall</b>	<u><u>50,393</u></u>	<u><u>33.3</u></u>	<u><u>71,067</u></u>	<u><u>32.5</u></u>	<u><u>53,229</u></u>	<u><u>35.3</u></u>	<u><u>66,155</u></u>	<u><u>32.5</u></u>

### Other income, gains and losses

The following table sets forth a breakdown of the Group's other income, gains and losses during the Track Record Period:

	Year ended 31 December		Nine months ended 30 September	
	2014	2015	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	111	74	74	4
Dividend income from investments	63	69	45	—
Interest income from held-to-maturity investments	237	470	299	—
Gain/(Loss) on disposal of investments	180	(63)	—	—
Impairment of available-for-sale investments	(66)	—	—	—
Gain/(Loss) on disposal of property, plant and equipment	—	20	20	(16)
Others	<u>19</u>	<u>18</u>	<u>—</u>	<u>26</u>
<b>Total</b>	<u><u>544</u></u>	<u><u>588</u></u>	<u><u>438</u></u>	<u><u>14</u></u>

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### Administrative and other operating expenses

The following table sets forth a breakdown of the Group's administrative and other operating expenses during the Track Record Period:

	Year ended		Nine months ended	
	31 December		30 September	
	2014	2015	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Staff salaries and benefits	7,143	6,961	5,238	4,624
Travel and entertainment expenses	1,602	1,406	1,032	1,074
Directors' emoluments	1,274	1,254	933	2,530
Office rental and utilities	863	1,030	773	1,635
Depreciation on property, plant and equipment	519	535	404	1,052
Motor vehicles expenses	502	513	344	287
Bank charges	291	398	372	418
Insurance expenses	244	258	233	256
Repairs and maintenance expenses	115	159	146	352
Legal and professional fees	60	281	53	642
Auditor's remuneration	58	312	185	225
Write off of property, plant and equipment	11	—	—	6
Others	592	1,034	608	496
	<u>13,274</u>	<u>14,141</u>	<u>10,321</u>	<u>13,597</u>
<b>Total</b>	<u>13,274</u>	<u>14,141</u>	<u>10,321</u>	<u>13,597</u>

### Finance costs

The following table sets forth a breakdown of the Group's finance costs during the Track Record Period:

	Year ended		Nine months ended	
	31 December		30 September	
	2014	2015	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(unaudited)</i>	
Interest on bank borrowings	307	452	329	315
Interest element of finance lease payments	17	14	11	7
	<u>324</u>	<u>466</u>	<u>340</u>	<u>322</u>
<b>Total</b>	<u>324</u>	<u>466</u>	<u>340</u>	<u>322</u>

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### Income tax expense

The Group's income tax expenses for the year/period can be reconciled to the profit before taxation in the combined statement of comprehensive income as follows:

	<b>Year ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>			
Profit before income tax	<u>37,339</u>	<u>55,863</u>	<u>43,006</u>	<u>50,562</u>
Tax calculated at Hong Kong Profits Tax rate of 16.5%	6,161	9,217	7,096	8,343
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	—	—	29
Tax effect of revenue not taxable for tax purposes	(11)	(12)	(7)	—
Tax effect of expenses not deductible for tax purposes	13	218	37	363
Tax effect of temporary differences not recognised	(29)	(12)	(10)	(28)
Under-provision in respect of prior years	—	—	—	128
Others	<u>(60)</u>	<u>(40)</u>	<u>—</u>	<u>—</u>
<b>Income tax expense</b>	<u><u>6,074</u></u>	<u><u>9,371</u></u>	<u><u>7,116</u></u>	<u><u>8,835</u></u>

For each of the two years ended 31 December 2015 and nine months 30 September 2016, the Group recorded income tax expense of approximately HK\$6.1 million, HK\$9.4 million and HK\$8.8 million, respectively. The following table sets forth the Group's effective tax rate during the Track Record Period:

	<b>Year ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>			
Profit before income tax	37,339	55,863	43,006	50,562
Income tax expense	6,074	9,371	7,116	8,835
Effective tax rate	16.3%	16.8%	16.5%	17.5%

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### COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2015 compared with the year ended 31 December 2014

#### *Revenue*

Revenue of the Group increased by approximately HK\$67.5 million or 44.6% from approximately HK\$151.3 million for the year ended 31 December 2014 to approximately HK\$218.8 million for the year ended 31 December 2015. Such increase was mainly attributable to the increase of approximately HK\$74.7 million or 61.5% in podium facade and related works and partially offset by (i) the decrease of approximately HK\$2.3 million or 13.9% in the curtain wall works; and (ii) the decrease of approximately HK\$4.9 million or 35.7% in the repair and maintenance services.

Such increase was mainly due to the following:

- (i) 7 new projects were awarded and contributed a total of approximately HK\$47.7 million to the Group's revenue during the year ended 31 December 2015.
- (ii) The Group derived a higher amount of recognised revenue from a particular project during the year ended 31 December 2015, which was due to the actual work progress under the relevant contract:

Type of works	Amount of revenue recognised for the year ended 31 December	
	2014 HK\$'000	2015 HK\$'000
Podium facade and related works	11,282	44,685

#### *Costs of revenue*

Cost of revenue of the Group increased by approximately HK\$46.9 million or 46.4% from approximately HK\$100.9 million for the year ended 31 December 2014 to approximately HK\$147.8 million for the year ended 31 December 2015. The cost of revenue of the Group mainly includes material and processing charges, subcontracting charges and project staff cost, while these costs vary amongst different projects and also may fluctuate substantially from year to year, depending on the progress and stage of projects. The following is a discussion of the changes in the key components of the Group's cost of revenue for the year ended 31 December 2015 compared to that of 2014:

- (i) The material and processing charges increased from approximately HK\$36.3 million for the year ended 31 December 2014 to approximately HK\$60.2 million for the year ended 31 December 2015, representing an increase of approximately 65.9%. Such increase was mainly due to more projects of the Group were in the procurement of materials stage during

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the year ended 31 December 2015 as compared to the year ended 31 December 2014, such as two projects in relation to the supply and installation works of curtain wall, glass wall for podium and footbridge in Yuen Long where a majority of materials required were purchased during the year.

- (ii) The subcontracting charges increased from approximately HK\$35.8 million for the year ended 31 December 2014 to approximately HK\$57.3 million for the year ended 31 December 2015, representing an increase of approximately 60.1%. Such increase was mainly due to (a) more projects of the Group proceeded to the installation or other labour-intensive stages during the year which resulted in more subcontracting works engaged during the year; and (b) the higher average fees charged by the subcontractors.
- (iii) The project staff costs increased from approximately HK\$13.6 million for the year ended 31 December 2014 to approximately HK\$16.1 million for the year ended 31 December 2015, representing an increase of approximately 18.2%. The relatively lower-than-proportion increase in the Group's project staff costs was attributable to the relatively stable number of project management staff while the increase mainly represented salary increment and increased number of projects undertaken by the Group during the year.

### ***Gross profit and gross profit margin***

Gross profit of the Group for the year ended 31 December 2014 and 2015 respectively were as follows:

	<b>For the year ended 31 December</b>	
	<b>2014</b>	<b>2015</b>
Revenue ( <i>HK\$'000</i> )	151,304	218,820
Gross profit ( <i>HK\$'000</i> )	50,393	71,067
Gross profit margin	33.3%	32.5%

Gross profit amounted to approximately HK\$50.4 million and approximately HK\$71.1 million for the year ended 31 December 2014 and 2015, respectively, representing an increase of approximately 41.0%, while the Group's profit margin remains relatively stable.

### ***Other income, gains and losses***

Other income, gains and losses of the Group increased by approximately HK\$44,000 or 8.1% from approximately HK\$544,000 for the year ended 31 December 2014 to approximately HK\$588,000 for the year ended 31 December 2015. Such increase was mainly attributable to (i) the increase in interest income from held-to-maturity investment; (ii) the increase in gain on disposal of property, plant and equipment; (iii) the reduction in impairment of available-for-sale investments, and was partly offset by the decrease in bank interest income and gain on disposal of investments during the corresponding year.

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### ***Administrative and other operating expenses***

Administrative and other operating expenses of the Group increased by approximately HK\$867,000 or 6.5% from approximately HK\$13.3 million for the year ended 31 December 2014 to approximately HK\$14.1 million for the year ended 31 December 2015. Such increase was mainly attributable to (i) the increase in auditor's remuneration of approximately HK\$0.3 million during the year ended 31 December 2015; and (ii) the increase in legal and professional fees of approximately HK\$0.2 million during the year ended 31 December 2015.

### ***Finance costs***

Finance costs of the Group increased by approximately HK\$142,000 or 43.8% from approximately HK\$324,000 for the year ended 31 December 2014 to approximately HK\$466,000 for the year ended 31 December 2015. Such increase was mainly attributable to the increase in the Group's proceeds from bank borrowings from approximately HK\$11.3 million during the year ended 31 December 2014 to approximately HK\$24.4 million for the year ended 31 December 2015.

### ***Income tax expense***

Income tax expense of the Group increased by approximately HK\$3.3 million or 54.3% from approximately HK\$6.1 million for the year ended 31 December 2014 to approximately HK\$9.4 million for the year ended 31 December 2015. Such increase was primarily due to the increase in the Group's profit before tax from approximately HK\$37.3 million for the year ended 31 December 2014 to approximately HK\$55.9 million for the year ended 31 December 2015, representing an increase of approximately 49.9%. For the years ended 31 December 2014 and 2015, the effective tax rate of the Group amounted to approximately 16.3% and 16.8%, respectively, which is similar to the Hong Kong Profits Tax Rate of 16.5%.

### ***Profit for the year and total comprehensive income for the year attributable to the owners of the Company***

Profit for the year of the Group increased by approximately HK\$15.2 million or 48.7% from approximately HK\$31.3 million for the year ended 31 December 2014 to approximately HK\$46.5 million for the year ended 31 December 2015 due to the combined effect of the aforementioned items.

Total comprehensive income for the year attributable to the owners of the Company increased by approximately HK\$15.5 million or 50.1% from approximately HK\$30.6 million for the year ended 31 December 2014 to approximately HK\$46.1 million for the year ended 31 December 2015.

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Nine months ended 30 September 2016 compared with the nine months ended 30 September 2015

### *Revenue*

Revenue of the Group increased by approximately HK\$52.7 million or 34.9% from approximately HK\$150.9 million for the nine months ended 30 September 2015 to approximately HK\$203.6 million for the nine months ended 30 September 2016. Such increase was mainly attributable to the Group's efforts in pursuing projects of relatively larger scales and higher income. The Group recorded an increase in the number of design and build projects of relatively larger scale and higher revenue recognised during the nine months ended 30 September 2016 as illustrated in the table below:

	For the nine months ended 30 September	
	2015	2016
<b>Revenue recognised</b>		
HK\$10 million or above	5	7
HK\$1 million to below HK\$10 million	9	11
Below HK\$1 million	<u>9</u>	<u>4</u>
	<u>23</u>	<u>22</u>

### *Costs of revenue*

Cost of revenue of the Group increased by approximately HK\$39.7 million or 40.7% from approximately HK\$97.7 million for the nine months ended 30 September 2015 to approximately HK\$137.4 million for the nine months ended 30 September 2016, of which the material and processing charges and subcontracting charges increased by approximately 33.6% and 63.1%, respectively. Such increase was generally in line with the growth in the Group's revenue for the corresponding period.

During various stages of work progress, the Group's projects proceed to more labour-intensive procedures upon the commencement of the installation stage. The higher-than-proportion increase in subcontracting charges was mainly attributable to the increased installation works required for two projects undertaken by the Group during the nine months ended 30 September 2016, which included a project in relation to the supply and installation works of curtain wall, glass wall for a podium in Yuen Long and another project in relation to podium facade works of a commercial building in Tsim Sha Tsui.



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### *Gross profit and gross profit margin*

Gross profit of the Group for the nine months ended 30 September 2015 and 2016, respectively were as follows:

	<b>For the nine months ended 30 September</b>	
	<b>2015</b>	<b>2016</b>
	<i>(unaudited)</i>	
Revenue (HK\$'000)	150,890	203,598
Gross profit (HK\$'000)	53,229	66,155
Gross profit margin	35.3%	32.5%

Gross profit amounted to approximately HK\$53.2 million and approximately HK\$66.2 million for the nine months ended 30 September 2015 and 2016, respectively, representing an increase of approximately 24.3%. The higher gross profit margin recorded by the Group during the nine months ended 30 September 2015 was mainly attributable to the fact that the Group undertook certain projects with relatively higher gross profit margins during the period, such as a project in relation to the supply and installation works of curtain wall, glass wall for a footbridge in Yuen Long which contributed approximately HK\$26.6 million to the Group's revenue for the nine months ended 30 September 2015 with a gross profit margin of approximately 40% for the nine months ended 30 September 2015.

### *Other income, gains and losses*

Other income, gains and losses of the Group decreased by approximately HK\$424,000 or 96.8% from approximately HK\$438,000 for the nine months ended 30 September 2015 to approximately HK\$14,000 for the nine months ended 30 September 2016. Such decrease was primarily due to nil dividend income from investments and interest income from held-to-maturity investments during the nine months ended 30 September 2016 whereas that for the nine months ended 30 September 2015, those amounted to approximately HK\$45,000 and HK\$299,000, respectively, and the decrease in bank interest income of approximately HK\$70,000 during the corresponding period.

### *Administrative and other operating expenses*

Administrative and other operating expenses of the Group increased by approximately HK\$3.3 million or 31.7% from approximately HK\$10.3 million for the nine months ended 30 September 2015 to approximately HK\$13.6 million for the nine months ended 30 September 2016. Such increase was mainly attributable to the increase in (i) depreciation charge of approximately HK\$0.6 million; (ii) directors' emoluments of approximately HK\$1.6 million; (iii) office rental and utilities expenses of approximately HK\$0.9 million; and (iv) legal and professional fee of approximately HK\$0.6 million, which was partly offset by the decrease in staff salaries and benefits of approximately HK\$0.6 million for the corresponding period.

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### ***Finance costs***

Finance costs of the Group for the nine months ended 30 September 2016 amounted to approximately HK\$322,000, which is similar to that of approximately HK\$340,000 for the nine months ended 30 September 2015.

### ***Income tax expense***

Income tax expense of the Group increased by approximately HK\$1.7 million or 24.2% from approximately HK\$7.1 million for the nine months ended 30 September 2015 to approximately HK\$8.8 million for the nine months ended 30 September 2016. Such increase was primarily due to the increase in the Group's profit before tax from approximately HK\$43.0 million for the nine months ended 30 September 2015 to approximately HK\$50.6 million for the nine months ended 30 September 2016, representing an increase of approximately 17.6%. For the nine months ended 30 September 2015, the effective tax rate of the Group amounted to approximately 16.5%, which is similar to the Hong Kong Profits Tax Rate of 16.5%, whereas the effective tax rate of the Group for the nine months ended 30 September 2016 amounted to approximately 17.5%. The increase in the effective tax rate of the Group was mainly due to the operation of a wholly-owned subsidiary in the PRC that commenced during the period and hence it is also subject to the enterprise income tax in the PRC at a statutory tax rate of 25% and the non-deductible [REDACTED] expenses and professional fee incurred during the nine months ended 30 September 2016.

### ***Profit for the period and total comprehensive income for the period attributable to the owners of the Company***

Profit for the period of the Group increased by approximately HK\$5.8 million or 16.8% from approximately HK\$35.9 million for the nine months ended 30 September 2015 to approximately HK\$41.7 million for the nine months ended 30 September 2016 due to the combined effect of the aforementioned items.

Total comprehensive income for the period attributable to the owners of the Company increased by approximately HK\$6.3 million or 17.6% from approximately HK\$35.4 million for the nine months ended 30 September 2015 to approximately HK\$41.7 million for the nine months ended 30 September 2016.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

During the Track Record Period, the Group financed its operations through a combination of internally generated cash flows and borrowings from banks. The Directors believe that in the long term, the Group's operation will be funded by internally generated cash flows and bank borrowings, the net proceeds from the [REDACTED] and, if necessary, additional equity financing when there are capital needs.

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**Cash flows**

The following table sets forth a condensed summary of the Group's combined statements of cash flows during the Track Record Period:

	<b>Year ended</b>		<b>Nine months ended</b>	
	<b>31 December</b>		<b>30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Net cash generated from/ (used in) operating activities	12,583	95,463	79,149	(3,883)
Net cash generated from/ (used in) investing activities	3,772	608	(1,541)	(20,308)
Net cash generated from/ (used in) financing activities	<u>2,717</u>	<u>(33,086)</u>	<u>(30,506)</u>	<u>(31,158)</u>
Increase/ (decrease) in cash and cash equivalents	19,072	62,985	47,102	(55,349)
Cash and cash equivalents at the beginning of the year/period	<u>33,046</u>	<u>52,118</u>	<u>52,118</u>	<u>115,103</u>
Cash and cash equivalents at the end of the year/period	<u><u>52,118</u></u>	<u><u>115,103</u></u>	<u><u>99,220</u></u>	<u><u>59,754</u></u>

**Cash flows from operating activities**

The Group derives cash inflow from operating activities primarily from the receipt of payments from contract work. Cash outflow from the Group's operating activities primarily includes material and processing charges, subcontracting charges and staff costs, and all other operating expenses such as staff benefits, travelling and entertainment expenses, office rental and utilities and depreciation.

***Year ended 31 December 2014***

For the year ended 31 December 2014, the Group recorded net cash generated from operating activities of approximately HK\$12.6 million, primarily attributable to profit before income tax of approximately HK\$37.3 million; adjusted to reflect mainly (i) depreciation of property, plant and equipment of approximately HK\$519,000; (ii) bank interest income of approximately HK\$111,000; (iii) interest income from held-to-maturity investments and gain on disposal of investments of approximately HK\$237,000 and HK\$180,000, respectively; (iv) interest expenses of approximately HK\$324,000; (v) an increase in amount due from customers of contract works of approximately HK\$7.6 million; (vi) an increase in trade and other receivables of approximately HK\$4.5 million; (vii) a decrease in trade and other payables of approximately HK\$4.0 million; (viii) an increase in amount due to customers of contract works of approximately HK\$1.2 million; (ix) change in balance with a Director of approximately HK\$8.5 million; and (x) income tax paid of approximately HK\$772,000.

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### ***Year ended 31 December 2015***

For the year ended 31 December 2015, the Group recorded net cash generated from operating activities of approximately HK\$95.5 million, primarily attributable to profit before income tax of approximately HK\$55.9 million; adjusted to reflect mainly (i) depreciation of property, plant and equipment of approximately HK\$535,000; (ii) interest income from held-to-maturity investments of approximately HK\$470,000; (iii) interest expenses of approximately HK\$466,000; (iv) a decrease in amount due from customers of contract works of approximately HK\$23.0 million; (v) a decrease in trade and other receivables of approximately HK\$4.3 million; (vi) an increase in trade and other payables and amount due to customers of contract works of approximately HK\$14.4 million and HK\$3.0 million, respectively; (vii) change in balance with a Director of approximately HK\$280,000; and (viii) income tax paid of approximately HK\$5.1 million.

### ***Nine months ended 30 September 2016***

For the nine months ended 30 September 2016, the Group recorded net cash used in operating activities of approximately HK\$3.9 million, primarily attributable to profit before income tax of approximately HK\$50.6 million; adjusted to reflect mainly (i) depreciation of property, plant and equipment of approximately HK\$1.1 million; (ii) interest expenses of approximately HK\$322,000; (iii) a decrease in amount due from customers of contract works of approximately HK\$7.7 million; (iv) an increase in trade and other receivables of approximately HK\$52.7 million; (v) a decrease in trade and other payables of approximately HK\$4.5 million; (vi) an increase in amount due to customers of contract works of approximately HK\$8.0 million; (vii) change in balance with a Director of approximately HK\$1.2 million; and (viii) income tax paid of approximately HK\$13.7 million.

### **Cash flows from investment activities**

During the Track Record Period, the Group's cash outflow from investing activities primarily consisted of pledged bank deposits, acquisition of investments and acquisition of property, plant and equipment, and the Group's cash inflow from investing activities primarily consisted of proceeds from redemption and disposal of investments.

### ***Year ended 31 December 2014***

For the year ended 31 December 2014, the Group recorded net cash generated from investing activities of approximately HK\$3.8 million mainly due to a decrease in time deposits with original maturity over three months of approximately HK\$6.3 million and proceed from redemption of held-to-maturity investments of approximately HK\$2.4 million, which was partially offset by an increase in pledge bank deposits of approximately HK\$5.1 million.

### ***Year ended 31 December 2015***

For the year ended 31 December 2015, the Group recorded net cash generated from investing activities of approximately HK\$608,000 mainly due to (i) a decrease in pledge bank deposits of approximately HK\$4.5 million; (ii) proceeds from redemption of held-to-maturity investments of

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approximately HK\$2.9 million; and (iii) sales proceeds from disposal of available-for-sale investments of approximately HK\$2.7 million, which was partially offset by the acquisition of held-to-maturity investments of approximately HK\$8.4 million and prepayment for acquisition of property, plant and equipment of approximately HK\$922,000.

### ***Nine months ended 30 September 2016***

For the nine months ended 30 September 2016, the Group recorded net cash used in investing activities of approximately HK\$20.3 million mainly due to an increase in pledge bank deposits of approximately HK\$17.0 million and acquisition of acquisition of property, plant and equipment of approximately HK\$2.9 million.

### **Cash flows from financing activities**

During the Track Record Period, the Group's cash outflow for financing activities primarily consisted of repayment of bank borrowings, dividends payment and deemed distribution to a controlling shareholder, and the Group's cash inflow from financing activities primarily consisted of proceeds from bank borrowings.

### ***Year ended 31 December 2014***

For the year ended 31 December 2014, the Group recorded net cash generated from financing activities of approximately HK\$2.7 million mainly due to the proceeds from bank borrowings of approximately HK\$11.3 million, which was partially offset by the repayment of bank borrowings of approximately HK\$8.0 million.

### ***Year ended 31 December 2015***

For the year ended 31 December 2015, the Group recorded net cash used in financing activities of approximately HK\$33.1 million mainly due to the repayment of bank borrowings of approximately HK\$28.1 million and dividends payment of approximately HK\$28.7 million, which was partially offset by the proceeds from bank borrowings of approximately HK\$24.4 million.

### ***Nine months ended 30 September 2016***

For the nine months ended 30 September 2016, the Group recorded net cash used in financing activities of approximately HK\$31.2 million mainly due to (i) the repayment of bank borrowings of approximately HK\$18.0 million; (ii) dividends payment of approximately HK\$35.9 million; and (iii) deemed distribution to a controlling shareholder of approximately HK\$5.6 million, which was partially offset by the proceeds from bank borrowings of approximately HK\$30.3 million.

### **CAPITAL EXPENDITURES**

During each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group incurred capital expenditure for the addition of property, plant and equipment, which mainly includes purchases of plant and machinery, furniture, fixture and equipment, office equipment, motor vehicles and leasehold improvement, of approximately HK\$1.4 million, HK\$0.3 million and HK\$3.8 million, respectively.

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The Group anticipates that the funds required for such capital expenditure will be financed by cash generated from operations, bank borrowings and the net proceeds from the [REDACTED]. It should be noted that the current plan with respect to future capital expenditure may be subject to change based on the implementation of business plan, including but not limited to, potential acquisitions, the progress of capital projects, market conditions and the outlook of future business conditions. As the Group will continue to expand, additional capital expenditures may be incurred and the Group may consider raising additional funds as and when appropriate. The Group's ability to obtain additional funding in the future is subject to a variety of uncertainties including but not limited to, further operation results, financial conditions and cash flows, economic, political and other conditions.

**WORKING CAPITAL**

The Directors are of the opinion that, taking into consideration the internal resources and the unutilised banking facilities presently available to the Group, and the estimated net proceeds of the [REDACTED], the Group has sufficient working capital for the Group's present requirements for at least the next 12 months commencing on the date of this [REDACTED].

**NET CURRENT ASSETS**

The following table sets forth a breakdown of the Group's current assets and liabilities as at the dates indicated:

	<b>As at 31 December</b>		<b>As at 30 September</b>	<b>As at 30 November</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
<b>Current assets</b>				
Inventories	1,033	1,148	544	1,012
Amounts due from customers of contract works	42,910	19,954	12,237	13,673
Trade and other receivables	23,248	18,927	71,674	61,640
Amount due from a director	—	7,646	8,876	8,876
Held-to-maturity investments	2,850	—	—	—
Pledged bank deposits	8,717	4,205	21,209	21,210
Cash and bank balances	<u>52,118</u>	<u>115,103</u>	<u>59,754</u>	<u>83,487</u>
	<u>130,876</u>	<u>166,983</u>	<u>174,294</u>	<u>189,898</u>

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	As at 31 December		As at 30 September	As at 30 November
	2014	2015	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>
<b>Current liabilities</b>				
Amounts due to customers of contract works	15,948	18,927	26,888	34,842
Trade and other payables	29,290	43,737	39,296	46,432
Amount due to a director	1,058	—	—	—
Tax payable	8,022	12,254	7,410	9,136
Bank borrowings	11,316	7,600	19,819	11,777
Obligation under finance lease	201	207	212	195
	<u>65,835</u>	<u>82,725</u>	<u>93,625</u>	<u>102,622</u>
<b>Net current assets</b>	<u>65,041</u>	<u>84,258</u>	<u>80,669</u>	<u>87,276</u>

The Group's net current assets increased by approximately HK\$19.2 million as at 31 December 2015 as compared with that of approximately HK\$65.0 million as at 31 December 2014, which was mainly due to the Group's profit of approximately HK\$46.5 million and partially offset by dividend of approximately HK\$28.7 million; such increase can be analysed as (i) an increase of approximately HK\$63.0 million in cash and bank balances, and partially offset by (ii) a decrease of approximately HK\$4.3 million in trade and other receivables, (iii) a decrease of approximately HK\$23.0 million in amounts due from customers of contract works, (iv) a decrease of approximately HK\$4.5 million in pledged bank deposits and (v) an increase of approximately HK\$14.4 million in trade and other payables.

The Group's net current assets decreased by approximately HK\$3.6 million as at 30 September 2016 as compared with that of approximately HK\$84.3 million as at 31 December 2015, which was mainly due to the Group's profit of approximately HK\$41.7 million and offset by dividend of approximately HK\$35.9 million, deemed distribution to a controlling shareholder of approximately HK\$5.6 million and acquisition of non-controlling interest of approximately HK\$1.4 million; such decrease can be analysed as (i) a decrease of approximately HK\$55.3 million in cash and bank balances; (ii) an increase of approximately HK\$12.2 million in bank borrowings; and (iii) the increase of approximately HK\$8.0 million in amounts due to customers of contract works, while partially offset by (iv) an increase of approximately HK\$52.7 million in trade and other receivables and (v) an increase of approximately HK\$17.0 million in pledged bank deposits.

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**INVENTORY ANALYSIS**

The following table sets forth the inventory balance of the Group by status as at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Inventories</b>			
Raw materials and consumables	<u>1,033</u>	<u>1,148</u>	<u>544</u>

As at 31 December 2014, 2015 and 30 September 2016, the Group's inventory amounted to approximately HK\$1.0 million, HK\$1.1 million and HK\$0.5 million, respectively, and remained relatively stable. The Group's inventory primarily refers to the raw materials to be fabricated by its suppliers, such raw materials are generally stored in the factories of the Group's suppliers.

As at 30 November 2016, approximately HK\$544,000 or 100.0% of the Group's inventories as at 30 September 2016 were subsequently used.

The following table sets forth the Group's inventory turnover days during the Track Record Period:

	<b>Year ended 31 December</b>		<b>Nine months</b>
	<b>2014</b>	<b>2015</b>	<b>ended 30</b>
			<b>September</b>
			<b>2016</b>
Inventory turnover days	1.4	1.8	1.1

*Note:* Inventory turnover days is calculated based on the average of the beginning and ending balance of inventory divided by revenue for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for a full year and 274 days for the period).

During each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group's inventory turnover days amounted to approximately 1.4 days, 1.8 days and 1.1 days. Due to the nature of the Group's inventory, which raw materials are stored in the factories of its suppliers to be further fabricated shortly, therefore the Group has relatively short inventory turnover days.



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**AMOUNT DUE FROM/(TO) CUSTOMERS OF CONTRACT WORKS**

The following table sets forth the details of the amounts due from/(to) customers of contract works as at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred to date plus recognised profits			
less recognised losses	646,071	785,781	665,896
Less: Progress billings to date	<u>(619,109)</u>	<u>(784,754)</u>	<u>(680,547)</u>
	<u>26,962</u>	<u>1,027</u>	<u>(14,651)</u>
Amounts due from customers of contract works	42,910	19,954	12,237
Amounts due to customers of contract works	<u>(15,948)</u>	<u>(18,927)</u>	<u>(26,888)</u>
	<u>26,962</u>	<u>1,027</u>	<u>(14,651)</u>

Amounts due to customers for contract works represent design and build projects in progress where the Group's progress billings exceed the costs incurred plus recognised profits less recognised losses. Conversely, if the costs incurred plus recognised profits less recognised losses exceed progress billings, amounts due from customers for contract work will be recognised as current assets of the Group.

As at 31 December 2014, 2015 and 30 September 2016, the Group had (i) amounts due from customers of contract works of approximately HK\$42.9 million, HK\$20.0 million and HK\$12.2 million, respectively; and (ii) amounts due to customers of contract works of approximately HK\$16.0 million, HK\$18.9 million and HK\$26.9 million, respectively.

The key components of amounts due from customers for contract works as at 31 December 2014 comprised two contracts for which the Group was in negotiation with the customers over the final certification account and relatively less certification by certain major customers as certain projects did not achieve substantial progress until the year ended 31 December 2015. Certification from such customers picked up the pace and the Group concluded the final account negotiation for one of the aforementioned contracts in year 2015, resulting in a decrease in amounts due from customers for contract works as at 31 December 2015. The amounts due from customers for contract works as at 30 September 2016 comprised relatively smaller sum of work done pending customer certification for numerous contracts. The rise in amounts due to customers for contract works is generally in line with the Group's revenue growth throughout the Track Record Period.

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**TRADE AND OTHER RECEIVABLES**

The following table sets forth a breakdown of the Group's trade and other receivables as at the end reporting period:

	<b>As at 31 December</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2016</b>
Trade receivables	11,524	8,895	47,947
Retention receivables	10,324	6,331	10,724
Deposits and prepayments	<u>1,400</u>	<u>3,701</u>	<u>13,003</u>
	<u>23,248</u>	<u>18,927</u>	<u>71,674</u>

**Trade receivables**

The credit period granted by the Group to its trade debtors ranged from 20 to 60 days. The following table sets forth an ageing analysis of the trade receivables (net), based on invoice date, as at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2016</b>
0 — 30 days	8,022	6,435	45,527
31 — 60 days	370	73	—
61 — 90 days	308	284	—
Over 90 days but less than 1 year	1,751	541	817
Over 1 year	<u>1,073</u>	<u>1,562</u>	<u>1,603</u>
	<u>11,524</u>	<u>8,895</u>	<u>47,947</u>

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The ageing analysis of the trade receivables (net), based on due date, as at the end of each reporting period is as follows:

	<b>As at 31 December</b>	<b>2015</b>	<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	8,342	6,592	44,202
Past due but not impaired			
Past due less than 30 days	50	200	1,325
Past due for 30 or more but less than 60 days	309	8	557
Past due for 60 or more but less than 90 days	1,145	100	—
Past due for 90 days but less than 1 year	805	433	268
Past due for 1 year or more	873	1,562	1,595
	3,182	2,303	3,745
	11,524	8,895	47,947

Trade receivables that were neither past due nor impaired related to a range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to customers that have long-term business relationship with the Group. Based on past experience, management of the Group believes that no impairment allowance is necessary as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group's trade receivables mainly represent the billed amount of progress payment receivables from its customers for the contract works performed by the Group. As at 31 December 2014, 2015 and 30 September 2016, the Group's trade receivables amounted to approximately HK\$11.5 million, HK\$8.9 million and HK\$47.9 million, respectively. As at 31 December 2014 and 2015, the Group's trade receivables due from a major customer with a credit period of 20 days amounted to approximately HK\$0.4 million and HK\$4.1 million, respectively. However, as at 30 September 2016, the Group's trade receivables due from such major customer reduced to approximately HK\$3.3 million while approximately HK\$41.6 million were due from other two major customers, to which the Group has granted a longer credit period of 60 days.

As at 30 November 2016, approximately HK\$43.9 million or 91.6% of the Group's trade receivables as at 30 September 2016 has been settled.

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The following table sets forth the Group's trade receivables turnover days during the Track Record Period:

	<b>Nine months ended 30</b>		
	<b>Year ended 31 December</b>		<b>September</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Trade receivables turnover days	24.6	17.0	38.2

*Note:* Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for a full year and 274 days for the period).

During each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group's trade receivables turnover days were approximately 24.6 days, 17.0 days and 38.2 days, respectively, which were generally in line with the credit period of 20 to 60 days granted by the Group to its customers. The relatively longer trade receivables turnover days during the nine months ended 30 September 2016 was mainly due to relatively longer credit periods granted to certain major customers as compared with that for the two years ended 31 December 2015.

**Retention receivables**

Retention receivables are unsecured, interest-free and recoverable at the end of the defects liability period of individual contracts, ranging from 1 year to 2 years from the date of the completion of the respective project. The following table sets forth an ageing analysis of the retention receivables, based on the expiry of the defects liability period, as at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at 30 September</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet past due	6,539	3,466	6,063
Past due less than 1 year	3,271	2,533	1,972
Past due over 1 year or more	<u>514</u>	<u>332</u>	<u>2,689</u>
	<u>10,324</u>	<u>6,331</u>	<u>10,724</u>

As at 30 November 2016, approximately HK\$1.8 million or 16.8% of the Group's retention receivables as at 30 September 2016 has been settled.

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The following table sets forth the Group's retention receivables turnover days during the Track Record Period:

	<b>Year ended 31 December</b>	<b>2015</b>	<b>Nine months ended 30 September</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Retention receivables turnover days	21.7	13.9	11.5

*Note:* Retention receivables turnover days is calculated based on the average of the beginning and ending balance of retention receivables divided by revenue for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for a full year and 274 days for the period).

During each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group's retention receivables turnover days amounted to approximately 21.7 days, 13.9 days and 11.5 days, respectively. The decreasing trend in the Group's retention receivables turnover days was mainly due to (i) the relative stable level of retention receivables; and (ii) the increase in the Group's revenue during the Track Record Period.

**AMOUNT DUE FROM/(TO) A DIRECTOR**

As at 31 December 2014, the amount due to Mr. Lee, an executive Director and a Controlling Shareholder, was approximately HK\$1.1 million. As at 31 December 2015 and 30 September 2016, the amount due from Mr. Lee was approximately HK\$7.6 million and HK\$8.9 million, respectively. Such balances were non-trade in nature, unsecured, non-interest bearing and repayable on demand. The amount due from Mr. Lee was settled in December 2016. For further details, please refer to note 20 in the Accountant's Report as set out in Appendix I to this [REDACTED].

**TRADE AND OTHER PAYABLES**

The following table sets forth a breakdown of the Group's trade and other payables as at the end of each reporting period:

	<b>As at 31 December</b>	<b>2015</b>	<b>As at 30 September</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	22,126	33,675	22,351
Retention payables	1,924	3,643	6,578
Accruals and other payables	5,240	6,419	7,952
Receipt in advance	—	—	2,415
	<u>29,290</u>	<u>43,737</u>	<u>39,296</u>

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The credit period granted by the Group to its trade creditors ranged from 0 to 60 days. The following table sets forth an ageing analysis of the trade payables (net), based on invoice date, as at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at 30</b>
	<b>2014</b>	<b>2015</b>	<b>September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 30 days	8,023	15,071	9,361
31 — 60 days	3,429	9,397	2,851
61 — 90 days	533	2,281	2,613
Over 90 days	<u>10,141</u>	<u>6,926</u>	<u>7,526</u>
	<u><u>22,126</u></u>	<u><u>33,675</u></u>	<u><u>22,351</u></u>

The Group's trade payables mainly represent the payables for material and processing charges and subcontracting charges. As at 31 December 2014, 2015 and 30 September 2016, the Group's trade payables amounted to approximately HK\$22.1 million, HK\$33.7 million and HK\$22.4 million, respectively. The increase as at 31 December 2015 was mainly due to the increase in cost of revenue for the year ended 31 December 2015 as compared with that for the year ended 31 December 2014. The decrease in trade payables as at 30 September 2016 was mainly due to the decrease in the cost of revenue for the nine months ended 30 September 2016 as compared to that for the year ended 31 December 2015.

As at 30 November 2016, approximately HK\$12.1 million or 53.9% of the Group's trade payables as at 30 September 2016 has been settled.

The following table sets forth the Group's trade payables turnover days during the Track Record Period:

	<b>Year ended 31 December</b>		<b>Nine months</b>
	<b>2014</b>	<b>2015</b>	<b>ended 30</b>
			<b>September</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Trade payables turnover days	58.2	46.5	37.7

*Note:* Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by revenue for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for a full year and 274 days for the period).

During each of the two years ended 31 December 2015 and the nine months ended 30 September 2016, the Group's trade payables turnover days were approximately 58.2 days, 46.5 days and 37.7

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days, respectively, which were generally in line with the credit period of 0 to 60 days granted to the Group by its suppliers and subcontractors. The decreasing trend in the Group's trade payables turnover days was mainly due to (i) the relative stable level of trade payables; and (ii) the increase in the Group's revenue during the Track Record Period.

### Retention payables

The following table sets forth an ageing analysis of the retention payables, based on invoice date as at the end of each reporting period:

	As at 31 December		As at 30 September
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	1,667	3,337	6,146
Over 1 year	<u>257</u>	<u>306</u>	<u>432</u>
	<u>1,924</u>	<u>3,643</u>	<u>6,578</u>

As at 30 November 2016, none of the Group's retention payables as at 30 September 2016 has been settled as none of such payables was due.

### INDEBTEDNESS

The following table sets out the Group's indebtedness as at dates indicates:

	As at 31 December		As at 30 September	As at 30 November
	2014	2015	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
<b>Current liabilities</b>				
Bank borrowings	11,316	7,600	19,819	11,777
Obligation under finance lease	<u>201</u>	<u>207</u>	<u>212</u>	<u>195</u>
	<u>11,517</u>	<u>7,807</u>	<u>20,031</u>	<u>11,972</u>
<b>Non-current liability</b>				
Obligation under finance lease	<u>385</u>	<u>178</u>	<u>18</u>	<u>—</u>
	<u>11,902</u>	<u>7,985</u>	<u>20,049</u>	<u>11,972</u>

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As at 31 December 2014 and 2015, and 30 September 2016, the Group's indebtedness position was at approximately HK\$11.9 million, HK\$8.0 million and HK\$20.0 million, respectively. The Group's indebtedness was primarily bank borrowings of approximately HK\$11.3 million, HK\$7.6 million and HK\$19.8 million as at 31 December 2014 and 2015, and 30 September 2016, respectively, which were used for financing the Group's daily operations.

As at 30 November 2016, the Group had a total available banking facilities of approximately HK\$80.4 million, of which approximately HK\$39.5 million was utilised and approximately HK\$40.9 million was unutilised. Amongst such unutilised banking facilities, (i) approximately HK\$11.6 million represents facilities reserved for foreign exchange and (ii) approximately HK\$8.9 million represents facilities to be repaid and cancelled before [REDACTED], and were not available for the Group's operation purposes. As such, the unutilised banking facilities available for the Group's operations amounted to only approximately HK\$20.4 million. The Group intends to repay any outstanding banking facilities primarily by the internal resources generated from its operating activities. The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, the Group has not experienced any difficulties in obtaining bank borrowings nor any default in repayment on bank borrowings.

### Bank borrowings

The status of the Group's bank borrowings as at the respective financial position dates is as follows:

	As at 31 December 2014	2015	As at 30 September 2016	As at 30 November 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Bank borrowings	<u>11,316</u>	<u>7,600</u>	<u>19,819</u>	<u>11,777</u>

#### Notes:

- (a) Bank borrowings, including trade financing, are interest bearing at the bank's prime rate or the bank's prime rate adjusted by certain basis points per annum. The interest rates of the Group's bank borrowings as at 31 December 2014, 2015, and 30 September 2016 granted under banking facilities ranged from 5.25% to 5.50%, 5.25% to 5.50% and 5.25% to 6.50%, respectively per annum.

The interest rates of the Group's bank borrowings as at 30 November 2016 granted under banking facilities ranged from 5.25% to 6.50% per annum.

- (b) The Group's bank borrowings and banking facilities as at 31 December 2014, 2015 and 30 September 2016 are secured by the following:

- Bank deposits of HK\$8,717,000, HK\$4,205,000 and HK\$21,209,000 as at 31 December 2014, 2015 and 30 September 2016, respectively.
- Personal guarantees from Mr. Lee and Ms. Ku;
- Legal charge over (i) a property owned by Mr. Lee and Ms. Lam as at 31 December 2014; and (ii) a property owned by Mr. Lee as at 31 December 2015 and 30 September 2016;
- Legal charge over a property owned by Mr. Leung and Ms. Ku as at 31 December 2014, 2015 and 30 September 2016; and
- Legal charge over a property owned by a related company, in which Ms. Lam and Mr. Leung have equity interests as at 31 December 2014, 2015 and 30 September 2016.



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The Group's bank borrowings and banking facilities as at 30 November 2016 are secured by the following:

- Bank deposits of HK\$21,210,000 as at 30 November 2016;
- Personal guarantees from Mr. Lee and Ms. Ku;
- Legal charge over a property owned by Mr. Lee;
- Legal charge over a property owned by Mr. Leung and Ms. Ku;
- Legal charge over a property owned by a related company, in which Ms. Lam and Mr. Leung have equity interests as at 30 November 2016; and
- The personal guarantees and the legal charge over the properties existed at the date of this [REDACTED] will be fully released, discharged or replaced by corporate guarantees or other securities provided by the Group upon the [REDACTED].

**Obligation under finance lease**

The Group leases a motor vehicle and the lease is classified as finance lease. The lease obligation is secured by the lease asset.

The future lease payments under the finance lease are due as follows:

	<b>Minimum lease payments <i>HK\$'000</i></b>	<b>Interest <i>HK\$'000</i></b>	<b>Present value <i>HK\$'000</i></b>
<i>As at 31 December 2014</i>			
Not later than one year	215	(14)	201
Later than one year and not later than five years	<u>395</u>	<u>(10)</u>	<u>385</u>
	<u>610</u>	<u>(24)</u>	<u>586</u>

	<b>Minimum lease payments <i>HK\$'000</i></b>	<b>Interest <i>HK\$'000</i></b>	<b>Present value <i>HK\$'000</i></b>
<i>As at 31 December 2015</i>			
Not later than one year	215	(8)	207
Later than one year and not later than five years	<u>180</u>	<u>(2)</u>	<u>178</u>
	<u>395</u>	<u>(10)</u>	<u>385</u>

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	<b>Minimum lease payments</b>	<b>Interest</b>	<b>Present value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>As at 30 September 2016</i>			
Not later than one year	215	(3)	212
Later than one year and not later than five years	18	—	18
	233	(3)	230

	<b>Minimum lease payments</b>	<b>Interest</b>	<b>Present value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<i>As at 30 November 2016</i>			
Not later than one year	197	(2)	195
Later than one year and not later than five years	—	—	—
	197	(2)	195

The net carrying amounts of the Group's motor vehicle held under finance lease, which are classified as property, plant and equipment as at 31 December 2014 and 2015 and 30 September 2016 amounted to approximately HK\$572,000, HK\$327,000 and HK\$143,000, respectively.

The net carrying amount of the Group's motor vehicle held under finance lease, which is classified as property, plant and equipment as at 30 November 2016 amounted to HK\$102,000.

The Group's finance lease liabilities are subject to personal guarantee provided by Mr. Lee as at 30 November 2016. The Directors confirmed that the outstanding finance lease liabilities would be settled prior to the [REDACTED]. After full repayment of such finance lease liabilities, the aforementioned personal guarantee given by Mr. Lee will be released.

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The present value of future lease payments is analysed as:

	As at 31 December		As at 30 September	As at 30 November
	2014	2015	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Current liabilities	201	207	212	195
Non-current liabilities	<u>385</u>	<u>178</u>	<u>18</u>	<u>—</u>
	<u>586</u>	<u>385</u>	<u>230</u>	<u>195</u>

The effective interest rates of the Group's finance lease liability as at 31 December 2014 and 2015 and 30 September 2016 were 2.92%, 2.92% and 2.92%, respectively, per annum.

The effective interest rate of the Group's finance lease liability as at 30 November 2016 was 2.92% per annum.

**Contingent liabilities**

*Guarantees*

The Group provides guarantee in respect of the surety bonds in favour of the customers of certain construction contracts. Details of these guarantees as at the respective financial position dates as follows:

	As at 31 December		As at 30 September	As at 30 November
	2014	2015	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Aggregate value of the surety bonds issued in favour of customers	<u>10,905</u>	<u>7,954</u>	<u>27,768</u>	<u>27,768</u>

The collaterals provided by the Group for the issued surety bonds are disclosed in note (b) of the sub-section headed "indebtedness — Bank borrowing" in this section.

*Litigation*

During the Track Record Period, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remained outstanding as at November 2016. Claim

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amounts are not specified in some of the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance coverage is maintained to cover the losses, if any, arising from most of these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have material adverse impact on the financial position of the Group.

Save as disclosed and as otherwise disclosed in sub-section headed "Indebtedness" in this section, and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debt securities, term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or any guarantees or other material contingent liabilities at the close of business on 30 November 2016.

### **Material indebtedness change**

The Directors confirm that (i) there has not been any material change in the Group's indebtedness and contingent liabilities since 30 September 2016 and up to the Latest Practicable Date; (ii) the Directors are not aware of any material defaults in payment of the Group's trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iii) the bank loans, finance lease and bank facility is subject to standard banking conditions; (iv) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group's bank borrowings and facilities are subject to the fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group's ability to undertake additional debt or equity financings. Save as disclosed in sub-section headed "Indebtedness" in this section, the Group did not have, at the close of business on 30 September 2016, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

### **OFF-BALANCE SHEET HIRE PURCHASE COMMITMENTS AND ARRANGEMENTS**

Except for the finance lease set forth above in the sub-section headed "Indebtedness — Obligation under finance lease" in this section, as at the Latest Practicable Date, the Group did not have any off-balance sheet hire purchase commitments or arrangements.

### **DISTRIBUTABLE RESERVES**

As at 30 September 2016, the Company did not have any distributable reserve available for distribution to Shareholders.

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**KEY FINANCIAL RATIOS**

The following table sets for a summary of the Group's key financial ratios during the Track Record Period:

		<b>Year ended 31 December</b>		<b>Nine months ended 30 September</b>
	<i>Notes</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Return on total assets	1	23.3%	27.6%	23.4%
Return on equity	2	45.9%	54.2%	49.3%
Net profit margin	3	20.7%	21.2%	20.5%
Interest coverage	4	116.2 times	120.9 times	158.0 times
		<b>As at 31 December</b>		<b>As at 30 September</b>
		<b>2014</b>	<b>2015</b>	<b>2016</b>
Current ratio	5	2.0	2.0	1.9
Quick ratio	6	2.0	2.0	1.9
Gearing ratio	7	17.5%	9.3%	23.7%
Net debt to equity ratio	8	N/A	N/A	N/A

*Notes:*

1. Return on total assets is calculated by dividing profit for the respective year/period with total assets as at the end of the respective year/period multiplied by 100%.
2. Return on equity is calculated by dividing profit for the respective year/period with total equity as at the end of the respective year/period multiplied by 100%.
3. Net profit margin is calculated by dividing profit with revenue for the respective year/period multiplied by 100%.
4. Interest coverage is calculated by dividing profit before finance costs and income tax with finance costs for the respective year/period.
5. Current ratio is calculated by dividing total current assets with total current liabilities as at the end of the respective year/period.
6. Quick ratio is calculated by dividing total current assets minus inventories with total current liabilities as at the end of the respective year/period.
7. Gearing ratio is calculated by dividing total debts which include bank borrowings and obligation under finance lease with total equity as at the end of the respective year/period.
8. Net debt to equity ratio is calculated by dividing total debts minus bank balances and cash and pledged bank deposits with total equity as at the end of the respective year/period.

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### **Return on total assets**

Return on total assets of the Group amounted approximately 23.3% and 27.6% for each of the two years ended 31 December 2015, respectively, such increase was primarily due to the increase of the Group's profit of the year from approximately HK\$31.3 million for the year ended 31 December 2014 to approximately HK\$46.5 million for the year ended 31 December 2015. For the nine months ended 30 September 2016, the Group recorded return on total assets of approximately 23.4%, representing less profit recorded during the nine-month period as compared to a full year, and which the Directors consider that the nine months period financial results were not comparable to that of the full year.

### **Return on equity**

Return on equity of the Group was approximately 45.9% and 54.2% for each of the two years ended 31 December 2015, respectively, such increase was primarily due to the increase of the Group's profit of the year from approximately HK\$31.3 million for the year ended 31 December 2014 to approximately HK\$46.5 million for the year ended 31 December 2015 and was partly offset by the increase in equity from approximately HK\$68.1 million as at 31 December 2014 to approximately HK\$85.8 million as at 31 December 2015. For the nine months ended 30 September 2016, the Group recorded return on equity of approximately 49.3%, representing less profit recorded during the nine months period as compared to a full year, and which the Directors consider that the nine-month period financial results were not comparable to that of the full year.

### **Net profit margin**

Net profit margin of the Group remained relatively stable at approximately 20.7%, 21.2% and 20.5% for each of the two years ended 31 December 2015, and the nine months ended 30 September 2016, respectively. If the [REDACTED] expense of approximately HK\$[REDACTED] and HK\$[REDACTED] were excluded, the Group's net profit margin for the year/period ended 31 December 2015 and the nine months ended 30 September 2016 would have been approximately 21.8% and 21.3%, respectively, which remained relatively stable.

### **Interest coverage**

Interest coverage of the Group amounted to approximately 116.2 times, 120.9 times and 158.0 times for each of the two years ended 31 December 2015, and the nine months ended 30 September 2016, respectively. The increase of the Group's interest coverage over the Track Record Period was primarily due to the increase in the Group's revenue and profit before finance costs and income tax. For further details, please refer to the subsection headed "Comparison of results of operations" in this section.

### **Current ratio**

Current ratio of the Group remained relatively stable at approximately 2.0 times, 2.0 times and 1.9 times as at 31 December 2014 and 2015, and 30 September 2016, respectively.

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### **Quick ratio**

As the Group's inventories as at 31 December 2014 and 2015, and 30 September 2016 only amounted to approximately HK\$1.0 million, HK\$1.1 million and HK\$0.5 million, respectively. Quick ratio of the Group is similar to that of its current ratio. Quick ratio of the Group remained relatively stable at approximately 2.0 times, 2.0 times and 1.9 times as at 31 December 2014 and 2015, and 30 September 2016, respectively.

### **Gearing ratio**

Gearing ratio of the Group amounted to approximately 17.5%, 9.3% and 23.7% as at 31 December 2014 and 2015, and 30 September 2016, respectively. The fluctuations during the Track Record Period were mainly because of the changes in total debt of approximately HK\$11.9 million, HK\$8.0 million and HK\$20.0 million as at 31 December 2014 and 2015, and 30 September 2016, respectively. The increase in total debt as at 30 September 2016 was mainly attributable to the increase of approximately HK\$12.2 million of the Group's bank borrowings from approximately HK\$7.6 million as at 31 December 2015 to approximately HK\$19.8 million as at 30 September 2016.

### **Net debt to equity ratio**

There was no net debt as at 31 December 2014 and 2015, and 30 September 2016, respectively, thus the net debt to equity ratio is not applicable to the Group. For further details on the Group's financial performance and borrowings, please refer to the sub-sections headed "Comparison of results of operations" and "Indebtedness" in this section.

## **RELATED PARTY TRANSACTIONS**

During the Track Record Period, the Group had certain related party transactions in relation to (i) purchase of materials; (ii) rental of office; and (iii) sale of held-to-maturity investments, details of which are set out in the note 35 in the Accountant's Report set out in Appendix I to this [REDACTED]. The Directors confirm that these related part transactions were conducted on an arm's length basis and normal commercial terms, which ceased during the Track Record Period.

Having considered that the transaction amounts of these related party transactions are relatively insignificant as compared to the Group's total revenue, the Directors consider that these related party transactions did not distort the Group's financial results during the Track Record Period or make the Group's historical results unreflective of the Group's future performance.

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**CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT**

**Capital management**

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for Shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group monitors its capital using gearing ratio, which is total debt to equity. Total debts include bank borrowings and obligation under finance lease. Equity represents total equity of the Group. For further details on the Group's capital management objectives and policies, please refer to note 36 of the Accountant's Report set out in Appendix I to this [REDACTED].

**Financial risk management**

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. For further details on the Group's financial risk management objectives and policies, please refer to note 38 of the Accountant's Report set out in Appendix I to this [REDACTED].

**UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared on the basis of the notes set forth below, for the purpose of illustrating the effect of the [REDACTED] as if it had taken place on 30 September 2016. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group after the [REDACTED] or at any future dates.

	<b>Net tangible assets of the Group as at 30 September 2016</b>	<b>Estimated net proceeds from the [REDACTED]</b>	<b>Unaudited pro forma adjusted net tangible assets of the Group</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on the [REDACTED] of HK\$[REDACTED] per Share	84,647	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share	84,647	[REDACTED]	[REDACTED]	[REDACTED]



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*Notes:*

1. The combined net tangible assets of the Company as at 30 September 2016 are based on audited combined net assets of the Company as at 30 September 2016 of HK\$84,647,000 as shown in the Accountant's Report set out in Appendix I to this [REDACTED].
2. The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares to be issued at the minimum and maximum indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per share, respectively, after deduction of the underwriting fees and related expenses of approximately HK\$[REDACTED] or HK\$[REDACTED], based on the [REDACTED] of HK\$[REDACTED] or HK\$[REDACTED] per Share, payable and borne by the Company which has not been reflected in combined net tangible assets of the Company as at 30 September 2016. [No account has been taken of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.]
3. The unaudited pro forma combined net tangible assets per Share is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue assuming the [REDACTED] had been completed on 30 September 2016, but takes no account of any Shares which may be issued pursuant to the exercise of any options may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this [REDACTED].
4. No adjustment has been made to the unaudited pro forma combined net tangible assets of the Group to reflect any trading results or other transactions of the Company entered into subsequent to 30 September 2016.

### **[REDACTED] EXPENSES**

The Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately HK\$[REDACTED], of which approximately HK\$[REDACTED] is directly attributable to the [REDACTED] and is expected to be accounted for as a deduction from equity upon [REDACTED] and the remaining amount of approximately HK\$[REDACTED], which cannot be so deducted, will be charged to the Group's profit or loss. During the year ended 31 December 2015 and the nine months ended 30 September 2016, approximately HK\$[REDACTED] and HK\$[REDACTED] of the [REDACTED] expenses has been charged to the Group's profit or loss, respectively. Approximately HK\$[REDACTED] and HK\$[REDACTED] is expected to be incurred for the three months ended 31 December 2016 and the year ending 31 December 2017, respectively.

Expenses in relation to the [REDACTED] are non-recurring in nature. The Board wishes to inform the Shareholders and potential investors that the Group's financial performance and results of operations for the year ending 31 December 2017 will be affected by the estimated expenses in relation to the [REDACTED].

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**DIVIDENDS**

During the Track Record Period, subsidiaries of the Company declared dividends of which the details are set out as below:

	<b>Year ended 31 December</b>		<b>Nine months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividends attributable to			<i>(unaudited)</i>	
- Owners of the Company	—	28,560	28,560	35,900
- Non-controlling interests	<u>29</u>	<u>140</u>	<u>140</u>	<u>—</u>
	<u>29</u>	<u>28,700</u>	<u>28,700</u>	<u>35,900</u>

No dividend has been paid or declared by the Company since its incorporation. For the year ended 31 December 2015, nine months ended 30 September 2015 and 2016, subsidiaries of the Company declared interim dividend of approximately HK\$28,700,000, HK\$28,700,000 and HK\$35,900,000, respectively, to their then shareholders.

For the year ended 31 December 2014, a subsidiary of the Company declared an interim dividend of approximately HK\$117,000, of which approximately HK\$29,000 was paid to that subsidiary's shareholder with non-controlling interest.

In December 2016, an interim dividend of HK\$10,000,000 was declared by subsidiaries of the Company to their then respective shareholder(s). Such dividend was paid in full on 31 December 2016. The Group intends to declare an interim dividend of HK\$20,000,000 in [March 2017] to the then shareholders of the Group, which will be settled prior to the [REDACTED].

The Group currently does not have a fixed dividend policy. Dividend to be declared and paid in the future will be subject to the discretion of the Directors depending on the Group's business performance, financial conditions, cash availability, related statutory restrictions, future plan and prospects, and any other factors that the Directors may consider relevant. Any declaration and payment, including the amount of the dividends, will be subject to the Group's constitutional documents and the relevant laws.

**DISCLOSURE REQUIRED UNDER THE LISTING RULES**

The Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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**NO MATERIAL ADVERSE CHANGE**

Save as disclosed in the sections headed “Summary — Recent development” and “Summary — [REDACTED] expenses” in this [REDACTED], the Directors confirm that, up to the date of this [REDACTED], there has been no material adverse change in the financial or trading position or prospects of the Group since 30 September 2016 (being the date to which the latest audited combined financial statements of the Group were prepared), and there is no event since 30 September 2016 which would materially affect the information shown in the Accountant’s Report set out in Appendix I to this [REDACTED].