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## BUSINESS

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### 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 solutions 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 generally include main contractor, property developer, commercial enterprise and public body.

For each of the three years ended 31 December 2016, the Group’s revenue was mainly derived from the design and build projects while the remaining was generated from repair and maintenance works. The following table sets forth a breakdown of the Group’s revenue during the Track Record Period by types of services:

	Year ended 31 December					
	2014		2015		2016	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Design and build projects						
- Podium facade and related works	121,332	80.2	195,998	89.6	242,306	88.5
- Curtain wall works	<u>16,252</u>	<u>10.7</u>	<u>13,998</u>	<u>6.4</u>	<u>24,749</u>	<u>9.0</u>
<b>Sub-total</b>	137,584	90.9	209,996	96.0	267,055	97.5
Repair and maintenance services	<u>13,720</u>	<u>9.1</u>	<u>8,824</u>	<u>4.0</u>	<u>6,857</u>	<u>2.5</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>273,912</u></u>	<u><u>100.0</u></u>

### One-stop design and build solution services

Being a one-stop design and build solution services provider for podium facade and curtain wall, the services undertaken by the Group in a typical design and build project mainly include developing facade or curtain wall system design, structural calculation and shop drawings, sourcing and procurement of materials, arrangement for material fabrication and processing, installation works and post-completion maintenance services for the relevant works performed by the Group and/or its subcontractors within the defects liability period and the warranty period. The Group is also responsible for the overall project management. Please refer to the sub-section headed “Operating procedures — Design and build projects” in this section for details of the major steps involved in a typical design and build project.

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G & M Engineering, a member of the Group, is a Registered Minor Works Contractor with the Buildings Department. Design and build projects undertaken by the Group during the Track Record Period can be broadly divided into two categories, namely (i) podium facade and related works; and (ii) curtain wall works. For each of the three years ended 31 December 2016, the Group undertook 21, 25 and 23 design and build projects, contributing approximately HK\$137.6 million, HK\$210.0 million and HK\$267.1 million to the Group’s revenue, respectively.

The following table sets forth a breakdown of the Group’s design and build projects based on their scales of respective revenue recognition during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
<b>Revenue recognition during the year</b>			
HK\$40,000,000 or above	—	1	1
HK\$20,000,000 to below HK\$40,000,000	2	3	4
HK\$10,000,000 to below HK\$20,000,000	2	1	4
HK\$5,000,000 to below HK\$10,000,000	3	4	3
HK\$1,000,000 to below HK\$5,000,000	8	11	8
Below HK\$1,000,000	6	5	3
<b>Total</b>	<u>21</u>	<u>25</u>	<u>23</u>

During the Track Record Period, the Group completed a total of 20 design and build projects, of which 17 projects were related to podium facade and related works and 3 projects were related to curtain wall works. As at 31 December 2016, the Group had a total of 11 design and build projects on hand, with an aggregate value of approximately HK\$435.4 million. As at 31 March 2017, the Group had 10 design and build projects on hand, representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced, with an aggregate awarded contract sum of approximately HK\$519.2 million. For details on the Group’s latest development, please refer to the section headed “Summary — Recent development” in this [REDACTED].

### Repair and maintenance services

The Group also provides repair and maintenance services for podium facade and curtain wall in Hong Kong. Such repair and maintenance works undertaken by the Group for podium facade and curtain wall mainly include repair or replacement of damaged components such as aged sealant, gasket and window hardware; repair and maintenance works for glazing panel and glazing frame; as well as provision of inspection and consultancy services on maintenance works.

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During the Track Record Period, the Group’s revenue generated from repair and maintenance services amounted to approximately HK\$13.7 million, HK\$8.8 million and HK\$6.8 million, respectively, representing approximately 9.1%, 4.0% and 2.5% of the Group’s total revenue, respectively.

### COMPETITIVE STRENGTHS

The Directors believe that there are several competitive strengths that set the Group apart from its competitors and enable the Group to continue its growth and enhance its profitability. Such competitive strengths include:

#### **Well-established reputation with solid track record in the podium facade and curtain wall works industry in Hong Kong**

Founded in 1993, the Group has accumulated over 20 years’ experience in the podium facade and curtain wall works industry in Hong Kong. G & M Engineering, a member of the Group, is a Registered Minor Works Contractor with the Buildings Department. During the Track Record Period, the Group completed a total of 20 design and build projects, of which 17 projects were related to podium and facade and related works and 3 projects were related to curtain wall works. As at 31 March 2017, the Group had 10 design and build projects on hand, representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced, with an aggregate awarded contract sum of approximately HK\$519.2 million.

According to the Ipsos Report, the Group ranked second in terms of the revenue of the podium facade works industry in Hong Kong in 2015 with a market share of approximately 18.0%. In view of the above and the Group’s operating history, the Directors believe that the Group has built a good reputation and has a solid track record in the podium facade and curtain wall works industry in Hong Kong.

Based on the above, the Directors are of the view that the Group’s well-established reputation and proven track record in the podium facade and curtain wall works industry in Hong Kong differentiate the Group from its competitors, which is crucial to the future development and business expansion of the Group.

#### **Long-term business relationships with some of the Group’s major customers**

The Group’s customer types generally include main contractor, property developer, commercial enterprise and public body. Out of the Group’s top five customers during the Track Record Period, the Group has maintained business relationships of 10 or over 10 years with 6 of them. The Directors are of the view that the Group’s operating history, together with its continuous business relationship with its major customers, demonstrate a strong rapport between the Group and its major customers which in turn would increase the Group’s recognition and visibility in the market and enable the Group to attract potential business opportunities.

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The Directors believe that customers’ satisfaction is a fundamental factor to maintain good and long-term rapport between the Group and its customers, which enables the Group to secure projects from these existing customers in the future.

### **Stable business relationships with the Group’s major suppliers and subcontractors**

The Group has over 20 years of operating history in the podium facade and curtain wall works industry in Hong Kong. Throughout this period, the Group has built a stable pool of suppliers and subcontractors. The Group maintains internal lists of approved suppliers and subcontractors, which are updated on a continual basis. For further details of the basis for selection of suppliers and subcontractor, please refer to the sub-sections headed “Suppliers — Basis of selection of suppliers” and “Subcontractors — Basis of selection of subcontractors” in this section.

The Directors consider that having a stable supply of materials and labour allows the Group to effectively maintain the quality of its works, including the material and products used and the performance of subcontractors, which is a crucial factor for the Group to secure new business opportunities and maintain good reputation within the industry.

### **Experienced project management team and key personnel**

The Directors consider that the Group’s project management team possesses the requisite industry knowledge and management experience in project execution and expertise in the podium facade and curtain wall works industry. Each of the executive Directors, Mr. Lee and Mr. Chan, has more than 20 years’ of experience in the podium facade and curtain wall works industry in Hong Kong. Please refer to the section headed “Directors and senior management” in this [REDACTED] for further details of the biographies and relevant industry experiences.

As at the Latest Practicable Date, the Group’s project management team consisted of 23 members. Out of the 23 members, 21 possess higher diplomas or above in related disciplines. The Directors believe that the expertise, experience and industry knowledge of the Group’s project management team, together with other skilled employees, play critical roles in delivering up to standard works for its design and build projects.

### **One-stop design and build solution services provider for podium facade and curtain wall**

The Group provides one-stop design and build solutions to its customers ranging from developing facade or curtain wall system design, structural calculation and shop drawings, sourcing and procurement of materials, arrangement for material fabrication and processing, installation works and post-completion maintenance services for the relevant works performed by the Group and/or its subcontractors within the defects liability period and the warranty period. The Group is also responsible for overall project management.

In order to ensure the quality of the Group’s works, a project management team will be formed for each design and build project of the Group and a project manager will be assigned to oversee the project. The assigned project manager will communicate with the customer from time to time throughout the project. The Directors consider that since the Group is involved in every stage of a

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design and build project, the Group can effectively monitor the progress of the projects and minimise the possibility of having significant deviation from the original design provided to its customers. On the other hand, customers of the Group would be able to reduce time and financial cost in searching for and engaging different parties to provide the different types of services at each stage of a project.

### BUSINESS STRATEGIES

The Group aims to expand its scale of operation and further strengthen its market position and overall competitiveness in the podium facade and curtain wall works industry in Hong Kong. The Directors intend to pursue the following key strategies to achieve the Group’s future expansion plans:

#### **Further expanding the Group’s capacity to undertake more design and build projects**

The Group plans to further expand its capacity in order to undertake more design and build projects to expand its podium facade and curtain wall businesses. According to the Ipsos Report, there has been a general trend for the separation of the building skin from the structure, which has led to podium facade and curtain wall works industry becoming a distinct sub sector of the construction industry. The revenue of the podium facade and curtain wall works industry is expected to continue its rising trend from approximately HK\$5,254.1 million in 2016 to approximately HK\$6,265.0 million in 2020, at a CAGR of approximately 4.5%. Such growth is mainly driven by the increase of land supply for public and private residential buildings under the development plan for North East New Territories New Development Areas and conversion of Government properties into commercial use. As such, the Directors are of the view that the aforesaid Government’s policy will continue to fuel the growth of the podium facade and curtain wall works industry in the near future which justify the Group’s expansion plan to compete for more sizeable projects in terms of contract sum by expanding its capacity and scale.

The Directors believe that the Group’s capacity in undertaking projects depends on the amount of available working capital and cash flow. It is common in the construction industry that the Group incurs net cash outflows at the early stage of its project since the Group typically requires to pay the start-up costs, such as materials costs, subcontracting charges and insurance expenses, in advance of payment from its customers, whereas the customers normally make progress payments to the Group after the works have commenced and/or completed. Based on the experience of the Directors, according to the nature and specification of each project, the Group may generally incur maximum net cash outflows of approximately 23% to 28% of the contract sum at the early stage of its projects, particularly where the Group acts as a nominated subcontractor for the projects, and the customers generally make the first progress payment to the Group not until approximately 5 to 7 months after the commencement of the relevant projects. Furthermore, the Group’s customers generally withhold usually 10% of each interim payment up to an aggregate of usually 5% of the total contract sum as retention money, which will only be fully released to the Group subsequent to the expiry of the defect liability period.

For each of the three years ended 31 December 2016, the Group incurred aggregate upfront payments to its material suppliers of approximately HK\$4.5 million, HK\$4.4 million and HK\$56.2 million, respectively. During the Track Record Period, the Group obtained banking facilities and internal resources to finance the upfront payments. Although the Group has obtained banking facilities

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from a few banks, the Directors believe that it is necessary to maintain a disciplined financial strategy without exposing the Group to aggressive gearing in order to achieve sustainable growth in the long run; and a cash level sufficient to support the Group’s existing operations. During the Track Record Period, the Group had declined or did not respond to approximately 36, 41 and 18 invitations from customers to tender mainly attributable to the overlapping in the work progress of various major jobs and the limitations of the Group’s internal resources for allocation amongst these jobs simultaneously. The Directors consider that the number of projects that the Group is able to undertake hinges on the availability of the Group’s operational and human resources and the available working capital. To allow the Group to undertake more new projects with larger scale in terms of contract sum and reduce the number of projects turned down for tender, the Directors intend to apply part of the net proceeds from the [REDACTED] to strengthen the Group’s available financial resources. The Group intends to utilise approximately HK\$[REDACTED] of the net proceeds for upfront payments to the material suppliers, out of which (i) approximately HK\$[REDACTED] earmarked for the potential sizeable project with an estimated contract sum of approximately HK\$[REDACTED] which is expected to be awarded in the second quarter of 2017 (the “**Curtain Wall Project**”); and (ii) approximately HK\$[REDACTED] earmarked for any new potential projects. With such allocation of net proceeds from the [REDACTED], the Group’s working capital pressure would be greatly relieved and the Group will be effectively equipped with larger capacity to undertake more sizeable projects so as to capture the growth in the industry.

### **Further strengthening the Group’s capital base for the issue of surety bonds**

For construction projects in Hong Kong, it is not uncommon for customers to require contractors to take out surety bonds which usually amounts to approximately 10% of the total contract sum to ensure a contractor’s due performance. The surety bond requirement may result in the lock-up of a portion of the Group’s capital during the term of the surety bond and therefore affects its liquidity position.

During the Track Record Period, the Group had undertaken projects that require the provision of surety bonds. As at 31 December 2014, 2015 and 2016, the Group utilised the banking facilities for the issuance of surety bonds amounted to approximately HK\$10.9 million, HK\$8.0 million and HK\$27.8 million, respectively. The Group intends to utilise a portion of the net proceeds from the [REDACTED] to satisfy the surety bond requirement for future contracts, thereby allowing the Group to undertake projects of larger contract value. To achieve this business strategies, the Group intends to utilise approximately HK\$8.1 million and HK\$6.7 million of the net proceeds from the [REDACTED] for satisfying the bond requirements of the Curtain Wall Project and any potential new projects in near future, respectively. The Directors believe that the net proceeds from the [REDACTED] will strengthen the Group’s available financial resources, thereby allowing the Group to undertake more projects of larger contract value by applying a portion of the proceeds for satisfying the surety bond requirements of its customers and potential customers.



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Based on (i) the maximum cash outflows at the early stage of the Group’s design and build projects of approximately 28% of the contract sum; and (ii) typical surety bond requirement of approximately 10% of the total contract sum, the estimated aggregate contract value of projects that can be undertaken by the Group by applying approximately HK\$[REDACTED] of the net proceeds for further expanding the Group’s capacity to undertake more design and build projects would be approximately HK\$125.0 million.

### **Further expanding the Group’s manpower for project execution and strengthening the skills of staff**

During the Track Record Period, the Group recorded continuous growth in revenue from approximately HK\$151.3 million for the year ended 31 December 2014 to approximately HK\$273.9 million for the year ended 31 December 2016 while the number of the Group’s employees increased from 43 as at 31 December 2014 to 73 as at 31 December 2016. The increase in the Group’s revenue was mainly attributable to the Group’s effort in pursuing projects of relatively larger scale in term of contract sum during the Track Record Period whereas the increase in staff number was mainly because the Group set up a new design office in Shenzhen during the year ended 31 December 2016.

The Group secures new businesses mainly through direct invitation for tendering by customers and the Directors will take into account, amongst others, the Group’s projects on hand; the availability of the Group’s financial and human resources; and scale of projects as factors in considering the tender submission. The Directors believe that a strong team of staff members equipped with industry knowledge and experience in the podium facade and curtain wall businesses is crucial to the Group’s continuing success. In addition, all the Group’s projects require the involvement of project management team at various stages, such as assessment of potential projects, preparation and submission of tenders, project planning and administration, project implementation and quality control. While the senior management team plays an important role in different stages of a project, the Group’s capacity to take up and execute projects is largely determined by the capacity of the Group’s project management team. To cope with the Group’s business development and expansion plan as mentioned above, the Group intends to enhance its capacity by recruiting an additional 4 experienced and skilled project management staff and 5 supporting staff for design and build projects; and 3 experienced supporting staff for maintenance works. In view of the expansion of project management team and tenancy agreement of a leased properties will be expired in December 2017, the Group intends utilise a portion of net proceeds from the [REDACTED] to rent new office in Hong Kong.

In order to cope with the Group’s expansion plan as aforementioned, the Directors intend to expand its office in Shenzhen and it is the current intention of the Group to rent a new premises for its new office. The Group will also recruit an additional 5 designers and 3 relevant supporting staff to further enhance the Group’s design capabilities as well as to assist the Group’s design team in Hong Kong in preparing the shop drawings and fabrication drawings, and quality control of suppliers.

During the Track Record Period, the number of design and build projects awarded to the Group with an awarded contract sum of over HK\$100,000,000 increased from nil for each of the two years ended 31 December 2015 to 2 for the year ended 31 December 2016. In view of (i) larger scale projects generally involve more structural calculations, shop drawings and fabrication drawings during the course of project planning; (ii) the Group intends to allocate the relatively less complicated fabrication

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drawing works to the Shenzhen Design Office to reduce staff costs; (iii) the current size of Shenzhen design team can merely support the Group’s existing business scale of operation, but is not adequate for the Group’s expansion plan to undertake more sizeable design and build projects; (iv) it would be more cost-effective for the Group to recruit a team of draftsmen in the PRC in the long run given the rental costs and staff costs are comparatively lower than that in Hong Kong; (v) it would be more efficient to carry out design works by Shenzhen design team than to engage independent third parties to conduct such works as the Group is able to monitor and manage the delivery time and quality of design works, thereby maximising its operational efficiency; (vi) the expansion of the Shenzhen design office will enhance the Group’s design capabilities to undertake more sizeable projects that generally require more extensive and detailed drawings; and (vii) it is the Group’s business strategy to undertake more sizeable projects to capture the growth of the podium facade and curtain wall works industry in Hong Kong, the Directors therefore consider that the expansion of the Shenzhen design office will support the Group’s business expansion in the long run which justifies the Group’s business strategies.

The initial staff cost are estimated to be approximately HK\$3.8 million, HK\$8.0 million and HK\$4.0 million for the two years ending 31 December 2018 and the six months ending 30 June 2019, respectively. The aforementioned proceeds of approximately HK\$[REDACTED] for further expanding the Group’s manpower will cover the respective staff costs for a period of approximately 20 to 22 months. The total expenditure and rental for setting up new offices in Hong Kong and Shenzhen are expected to be approximately HK\$1.7 million and HK\$1.4 million, respectively.

Furthermore, the Group intends to provide more training to its relevant staff and make arrangements for them to attend technical seminars and occupational health and safety courses so as to improve their safety awareness, quality of services and industry know-how. Such training courses would include internal training as well as courses organised by external parties and training institutions.

### **Further enhancing the Group’s operational efficiency and technical capability by acquiring additional machinery and equipment**

In a design and build project, the Group will subcontract the installation works to other subcontractor(s) and source the required machinery and equipment to support the subcontractor(s) for handling building materials as well as execution of the works. Such machinery and equipment are usually provided by the subcontractors as specified in the subcontracting agreement, the cost of which are included in the subcontracting charges. To cope with the continuous growth in business scale and enhance the Group’s competitiveness, the Group purchased a vacuum lifter glazing robot in order to support the installation works carried out by the subcontractors so as to increase the Group’s operational efficiency during the year ended 31 December 2016.

The Directors believe that acquisition of additional machinery and equipment will allow the Group to: (i) manage the timeline of each project efficiently due to the immediate availability of relevant machinery and equipment; (ii) enhance its works efficiency and technical capability; (iii) increase its flexibility to deploy the resources more efficiently; (iv) to cope with its business development plan to undertake more sizeable projects in the future as discussed above; and (v) minimise the machinery and equipment rental costs in the long run. In this connection, the Group



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intends to allocate (i) approximately HK\$[REDACTED] for purchasing certain machines and equipment that are required for the Group’s curtain wall business, including 2 loading/unloading platforms, 1 set of monorail and winch gear, 1 silicone sealant mixer and filling machine and various auxiliary equipment; and (ii) approximately HK\$[REDACTED] for purchasing certain machines and equipment that are required for the Group’s podium and facade business, including 2 sets of mobile scaffolding tower and electric scissor lifts, 1 set of spider crane and 1 pickup truck. The expected capital expenditure for the acquisition of the aforesaid machinery and equipment will be approximately HK\$[REDACTED] which will be financed by the net proceeds from the [REDACTED].

In addition to the above, the Group intends to allocate approximately HK\$[REDACTED] for purchasing computers to cope with its business expansion and approximately HK\$[REDACTED] to strengthen its operational efficiency by upgrading various computer software for design and development.

### SERVICES OF THE GROUP

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 solutions 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.

During the Track Record Period, the Group had completed a total of 15 design and build projects and a total of 157 repair and maintenance works orders. For each of the three years ended 31 December 2016, the Group’s total revenue amounted to approximately HK\$151.3 million, HK\$218.8 million and HK\$273.9 million, respectively. The following table sets forth a breakdown of the Group’s revenue during the Track Record Period by types of services:

	Year ended 31 December					
	2014		2015		2016	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Design and build projects						
- Podium facade and related works	121,332	80.2	195,998	89.6	242,306	88.5
- Curtain wall works	<u>16,252</u>	<u>10.7</u>	<u>13,998</u>	<u>6.4</u>	<u>24,749</u>	<u>9.0</u>
<b>Sub-total</b>	137,584	90.9	209,996	96.0	267,055	97.5
Repair and maintenance services	<u>13,720</u>	<u>9.1</u>	<u>8,824</u>	<u>4.0</u>	<u>6,857</u>	<u>2.5</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>273,912</u></u>	<u><u>100.0</u></u>

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The following table sets forth a breakdown of the Group’s revenue during the Track Record Period attributable to private and public sectors:

	<b>Year ended 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Private sector	114,445	75.6	211,873	96.8	270,498	98.8
Public sector	<u>36,859</u>	<u>24.4</u>	<u>6,947</u>	<u>3.2</u>	<u>3,414</u>	<u>1.2</u>
<b>Total</b>	<u>151,304</u>	<u>100.0</u>	<u>218,820</u>	<u>100.0</u>	<u>273,912</u>	<u>100.0</u>

### **One-stop design and build solution services**

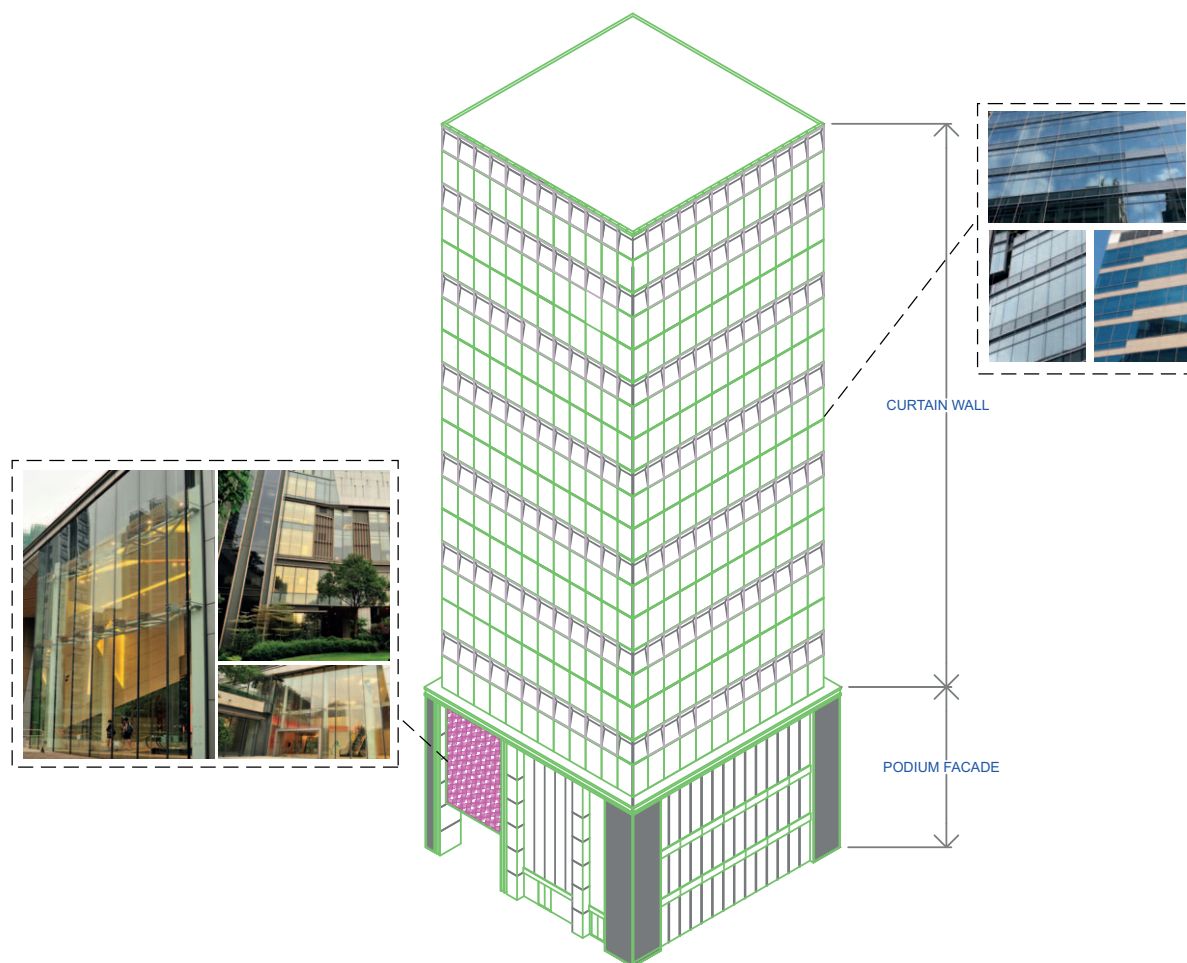
The Group provides one-stop design and build solution services for podium facade and curtain wall. Services involved in a typical design and build project include developing facade or curtain wall system design, structural calculation and shop drawings, sourcing and procurement of materials, arrangement for material fabrication and processing, installation works and post-completion maintenance services for the relevant works performed by the Group and/or its subcontractors within the defects liability period and the warranty period. The Group is also responsible for the overall project management. Design and build projects undertaken by the Group during the Track Record Period can be broadly divided into two categories, namely (i) podium facade and related works; and (ii) curtain wall works.

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The following picture illustrates the position of podium facade and curtain wall of a typical commercial building:



### *Podium facade and related works*

Podium facade generally refers to the external surface of the podium or atrium portion of a building, which is typically made up a combination of different materials, such as glass, granite and other cladding materials. Podium facade can be supported by aluminium and steel frames and other structural materials that are attached onto the concrete structure of the building. Related works under this sub-category generally refers to the supply and installation of shopfront for retails shops.

### *Curtain wall works*

Curtain wall typically refers to the external surface of a building above the podium or atrium portion. Glass, aluminium plate and various types of stones are common materials used for curtain walls. Curtain wall is typically supported by aluminium frames that are attached onto the slab edge of the building, which refers to the outer surface of the cement slabs separating the floors of a building.

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### Repair and maintenance services

The Group also provides repair and maintenance services for podium facade and curtain wall, such services cover (i) one-off repair and maintenance services; and (ii) inspection and consultancy services.

#### *One-off repair and maintenance services*

During the Track Record Period, one-off repair and maintenance works undertaken by the Group for podium facade and curtain wall mainly include repair or replacement of damaged components such as aged sealant, gasket and window hardware; repair and maintenance works for glazing panel and glazing frame, as well as provision of inspection and consultancy services on maintenance works.

#### *Inspection and consultancy services*

During the Track Record Period, inspection and consultancy services provided by the Group include visual inspection on curtain wall system, photo record of inspections and preparation of inspection record that lists out the defects identified during the inspection and recommendation of remedial actions to rectify the defects.

### DESIGN AND BUILD PROJECTS OF THE GROUP

#### Design and build projects awarded to the Group during the Track Record Period

During each of the three years ended 31 December 2016, the Group had been awarded 7, 7 and 9 design and build projects, respectively. The following table sets forth a breakdown of the number of projects awarded to the Group during the Track Record Period by types of services:

	Year ended 31 December		
	2014	2015	2016
	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>
Podium facade and related works	6	6	9
Curtain wall works	<u>1</u>	<u>1</u>	<u>—</u>
<b>Total</b>	<u><u>7</u></u>	<u><u>7</u></u>	<u><u>9</u></u>

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The following table sets forth a breakdown of the projects awarded to the Group during the Track Record Period by ranges of awarded contract sum:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>
<b>Awarded contract sum</b>			
HK\$100,000,000 or above	—	—	2
HK\$50,000,000 to below HK\$100,000,000	2	—	1
HK\$10,000,000 to below HK\$50,000,000	4	5	2
HK\$1,000,000 to below HK\$10,000,000	1	—	4
Below HK\$1,000,000	—	2	—
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<u>7</u>	<u>7</u>	<u>9</u>

### **Design and build projects with revenue recognition during the Track Record Period**

During each of the three years ended 31 December 2016, there were 21, 25 and 23 design and build projects with contribution to the Group’s revenue, respectively. The following table sets forth a breakdown of the projects with revenue recognition during the Track Record Period by types of services:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>	<i>Number of projects with revenue recognition</i>
Podium facade and related works	17	21	21
Curtain wall works	4	4	2
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<u>21</u>	<u>25</u>	<u>23</u>

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The following table sets forth a breakdown of the projects with revenue recognition during the Track Record Period by ranges of revenue recognition during the year:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
<b>Revenue recognition during the year</b>			
HK\$40,000,000 or above	—	1	1
HK\$20,000,000 to below HK\$40,000,000	2	3	4
HK\$10,000,000 to below HK\$20,000,000	2	1	4
HK\$5,000,000 to below HK\$10,000,000	3	4	3
HK\$1,000,000 to below HK\$5,000,000	8	11	8
Below HK\$1,000,000	<u>6</u>	<u>5</u>	<u>3</u>
<b>Total</b>	<u><u>21</u></u>	<u><u>25</u></u>	<u><u>23</u></u>

### Design and build projects completed by the Group during the Track Record Period

During each of the three years ended 31 December 2016, the Group had completed 4, 7 and 9 design and build projects, respectively. The following table sets forth a breakdown of the projects completed by the Group during the Track Record Period by types of services:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects completed</i>	<i>Number of projects completed</i>	<i>Number of projects completed</i>
Podium facade and related works	3	5	9
Curtain wall works	<u>1</u>	<u>2</u>	<u>—</u>
<b>Total</b>	<u><u>4</u></u>	<u><u>7</u></u>	<u><u>9</u></u>



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The following table sets forth a breakdown of the projects completed during the Track Record Period by ranges of accumulated revenue recognised:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>Number of projects completed</i>	<i>Number of projects completed</i>	<i>Number of projects completed</i>
<b>Accumulated revenue recognised</b>			
HK\$50,000,000 or above	—	2	2
HK\$10,000,000 to below HK\$50,000,000	4	1	3
HK\$1,000,000 to below HK\$10,000,000	—	3	4
Below HK\$1,000,000	—	1	—
<b>Total</b>	<u>4</u>	<u>7</u>	<u>9</u>

The following table summarises the 20 design and build projects completed by the Group during the Track Record Period in descending order by accumulated revenue recognised:

No.	Location	Type of works undertaken	Project period (approximately) months	Awarded contract sum (Note 1) HK\$ million	Accumulated revenue recognised prior to the Track Record Period (A)	Revenue recognised during the Track Record Period (B)	Accumulated revenue recognised upon completion (A+B)
					HK\$ million	HK\$ million	HK\$ million
1.	Yuen Long, New Territories	Podium facade and related works	42	94.1	4.2	86.0	90.2
2.	Happy Valley, Hong Kong	Podium facade and related works	48 (Note 2)	62.8	19.9	44.7	64.6
3.	Kam Tin, New Territories	Podium facade and related works	13	46.3	—	51.6	51.6
4.	Tung Chung, New Territories	Podium facade and related works	17	47.3	—	50.1	50.1
5.	Tseung Kwan O, New Territories	Podium facade and related works	18	43.2	31.1	16.2	47.3
6.	Tseung Kwan O, New Territories	Podium facade and related works	19	33.1	—	31.4	31.4
7.	Kam Tin, New Territories	Podium facade and related works	16	28.2	—	28.4	28.4
8.	Tsim Sha Tsui, Kowloon	Podium facade and related works	20	30.1	17.7	3.5	21.2

## BUSINESS

No.	Location	Type of works undertaken	Project period (approximately) months	Awarded contract sum (Note 1) HK\$ million	Accumulated	Revenue	Accumulated
					revenue recognised prior to the Track Record Period (A) HK\$ million	recognised during the Track Record Period (B) HK\$ million	revenue recognised upon completion (A+B) HK\$ million
9.	Admiralty, Hong Kong	Podium facade and related works	10	15.3	2.7	13.8	16.5
10.	Tseung Kwan O, New Territories	Podium facade and related works	19	18.4	—	15.5	15.5
11.	Fanling, New Territories	Podium facade and related works	16	12.4	8.1	5.4	13.5
12.	Mong Kok, Kowloon	Curtain wall works	17	11.5	1.0	10.6	11.6
13.	Tseung Kwan O, New Territories	Curtain wall works	29	10.0	1.5	8.5	10.0
14.	Tin Hau, Hong Kong	Curtain wall works	18	10.8	—	9.9	9.9
15.	Tseung Kwan O, New Territories	Podium facade and related works	24	8.6	—	7.5	7.5
16.	Happy Valley, Hong Kong	Podium facade and related works	7	2.9	—	2.8	2.8
17.	Yuen Long, New Territories	Podium facade and related works	8	1.7	—	1.6	1.6
18.	Happy Valley, Hong Kong	Podium facade and related works	3	0.8	—	1.2	1.2
19.	West Kowloon	Podium facade and related works	4	1.2	—	1.2	1.2
20.	Sha Tin, New Territories	Podium facade and related works	5	0.8	—	0.9	0.9

*Notes:*

1. The awarded contract sum does not take into account any variation orders issued by the customers and is only based on the initial engagement agreement entered into or quotation agreed upon between the Group and its customers.
2. This is a term contract awarded to the Group in April 2011 with a contract period of 36 months, the last works order was completed in March 2015.

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### Design and build projects on hand during the Track Record Period

As at 31 December 2014, 2015 and 2016, the Group had 11, 11 and 11 design and build projects on hand, respectively. The following table sets forth the movement of the Group’s design and build projects during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
Opening number of design and build projects (Note 1)	8	11	11
Number of design and build projects awarded (Note 2)	7	7	9
Number of design and build projects completed (Note 3)	<u>(4)</u>	<u>(7)</u>	<u>(9)</u>
Closing number of design and build projects (Note 4)	<u>11</u>	<u>11</u>	<u>11</u>

*Notes:*

1. Opening number of design and build projects refers to design and build projects with engagement confirmed and not yet completed as at the beginning of the relevant year indicated.
2. Number of design and build projects awarded refers to design and build projects awarded to the Group during the relevant year indicated.
3. Number of design and build projects completed refers to design and build projects completed by the Group during the relevant year indicated.
4. Closing number of design and build projects refers to design and build projects with engagement confirmed and not yet completed as at the end of the relevant year indicated.

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## BUSINESS

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As at 31 December 2014, 2015 and 2016, the value of the Group’s design and build projects on hand amounted to approximately HK\$350.5 million, HK\$282.4 million and HK\$435.4 million, respectively. The following table sets forth the movement of the Group’s design and build projects during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Opening value of design and build projects on hand <i>(Note 1)</i>	216.6	350.5	282.4
Total value of new design and build projects <i>(Note 2)</i>	271.5	141.9	420.1
Revenue recognised <i>(Note 3)</i>	<u>(137.6)</u>	<u>(210.0)</u>	<u>(267.1)</u>
Closing value of design and build projects on hand <i>(Note 4)</i>	<u>350.5</u>	<u>282.4</u>	<u>435.4</u>

*Notes:*

1. Opening value of design and build projects on hand refers to the aggregate awarded contract sum, excluding variation orders, of the design and build projects on hand as at the beginning of the relevant year indicated.
2. Total value of new design and build projects awarded refers to the aggregated awarded contract sum, excluding variation orders, of the design and build projects awarded to the Group during the relevant year indicated.
3. Revenue recognised refers to the aggregated revenue recognised from design and build projects during the relevant year indicated.
4. Closing value of design and build projects on hand refers to the aggregate contract sum, excluding variation orders, of the design and build projects on hand as at the beginning of the relevant year indicated, plus the aggregated awarded contract sum, excluding variation orders, of the newly awarded design and build projects during the relevant year indicated less the revenue derived from design and build projects during the relevant year indicated.

As at 31 March 2017, the Group had 10 design and build projects on hand. For further details, please refer to the section headed “Summary — Recent development” in this [REDACTED].

## BUSINESS

### Design and build projects on hand as at 31 March 2017

As at 31 March 2017, the Group had 10 design and build projects on hand, representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced. A summary of which is set out below in descending order by awarded contract sum:

No.	Customer	Location	Type of works undertaken	Expected/actual commencement month	Expected completion month	Awarded contract sum (Note 1)	Amount of		Expected revenue to be recognised for the year ending 31 December	
							Accumulated revenue recognised up to 31 December 2016	outstanding awarded contract sum as at 31 December 2016	2017	2018
						(A)	(B)	(A-B)	(Note 2)	(Note 2)
						HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
1.	Customer G	Tai Koo, Hong Kong	Podium facade and related works	Apr 2016	Jun 2018	199.0	14.0	185.0	114.1	53.5
2.	SHK Properties (Note 3)	Nam Cheong, Kowloon	Podium facade and related works	May 2016	Dec 2017	107.1	5.0	102.1	94.1	10.9
3.	Customer F	Tsim Sha Tsui, Kowloon	Podium facade and related works	Sep 2015	Apr 2017	78.7	69.9	8.8	19.1	4.8
4.	SHK Properties (Note 3)	Yuen Long, New Territories	Podium facade and related works	Feb 2014	Sep 2018	55.5	35.0	20.5	2.4	7.1
5.	SHK Properties (Note 3)	Cheung Sha Wan, Kowloon	Curtain wall works	Jul 2015	Apr 2017	28.9	25.7	3.2	2.3	0.6
6.	SHK Properties (Note 3)	San Po Kong, Kowloon	Podium facade and related works	Oct 2015	May 2017	19.3	5.5	13.8	9.2	0.4
7.	SHK Properties (Note 3)	Nam Cheong, Kowloon	Podium facade and related works	Sep 2016	Sep 2017	11.3	0.1	11.2	10.2	0.6
8.	SHK Properties (Note 3)	Nam Cheong, Kowloon	Podium facade and related works	May 2016	Sep 2017	10.5	1.1	9.4	9.5	0.5
9.	Customer G	Tai Koo, Hong Kong	Podium facade and related works	Nov 2016	Jul 2017	7.6	—	7.6	7.3	0.3
10.	Customer H	Tsuen Wan, New Territories	Podium facade and related works	April 2017	May 2018	1.3	—	1.3	0.8	0.5

*Notes:*

- The awarded contract sum does not take into account any variation orders issued by the customers and is only based on the initial engagement agreement entered into or quotation agreed upon between the Group and its customers.
- The expected revenue to be recognised for the years ending 31 December 2017 and 2018 is based on the latest programme of each project, taking into account of any additions and modifications due to variation orders (if any). Projects may continue to recognise revenue after practical completion for any additions and modifications due to variation orders.
- As at 31 March 2017, the Group had 6 design and build projects on hand that are contributable to SHK Properties. These projects have an aggregate contract sum of approximately HK\$232.6 million and an aggregate outstanding awarded contract sum as at 31 December 2016 of approximately HK\$160.2 million. It is expected that approximately HK\$127.7 million and HK\$20.1 million will be recognised from these projects for the years ending 31 December 2017 and 2018, respectively.

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## BUSINESS

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### REPAIR AND MAINTENANCE WORKS ORDERS OF THE GROUP

#### One-off repair and maintenance works orders

During the Track Record Period, the Group received a total of 209 one-off repair and maintenance works orders and completed a total of 196 one-off repair and maintenance works orders. Details of which are set out below:

	Year ended 31 December		
	2014	2015	2016
Number of one-off repair and maintenance works orders received by the Group	55	86	68
Number of one-off repair and maintenance works orders completed by the Group	45	81	70

#### Inspection and consultancy services order

During the Track Record Period, the Group undertook and completed 1 works order for its inspection and consultancy services for curtain wall with a contract sum of approximately HK\$90,000.



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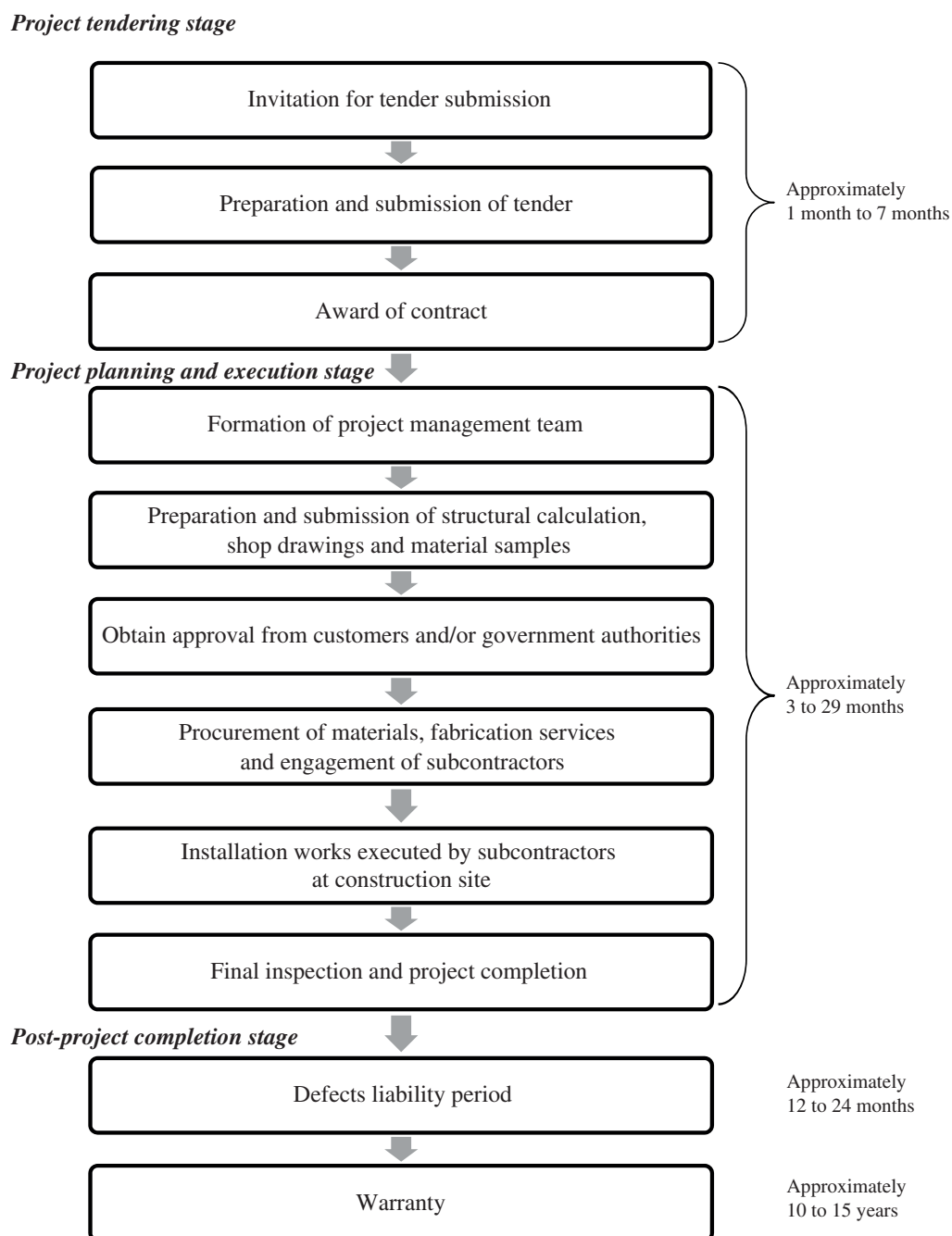
## BUSINESS

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### OPERATING PROCEDURES

#### Design and build projects

During the Track Record Period, the Group completed a total of 20 design and build projects, of which 17 projects were related to podium facade and related works and 3 projects were related to curtain wall works. Set out below is a flow chart summarising a usual workflow of a typical design and build project:



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### *Project tendering stage*

The Group is generally invited by its customers directly to submit a tender for potential design and build projects. During the Track Record Period, the Group generally acted as a subcontractor in its design and build projects. The Group acts as a domestic subcontractor for projects that the Group is directly engaged by the main contractors; while it acts as a nominated subcontractor or named subcontractor for projects that the Group is engaged by the main contractor through the nomination of the ultimate owners of the projects, i.e. developers of the relevant construction site.

In the case of a domestic subcontractor project, pre-qualification is not required and the Group will be provided a tender document along with the invitation to submit a tender. A tender document normally contains details of the project, such as location, expected timetable, scope of works and services to be provided by the Group, design and material requirements, and other technical specifications. In the case of a nominated subcontractor or named subcontractor project, the Group is generally required to submit a pre-qualification before the issue of the official invitation for tender submission. A typical pre-qualification includes submission of project reference, ISO certificate, job reference and the financial statements for the last three financial years by the Group to the potential customers.

After receiving the tender document for a potential design and build project, the Group will evaluate and conduct an analysis of the tender document in terms of (i) the nature/type of works; (ii) the costs budget; (iii) the target completion date; (iv) the Group’s projects on hand; (v) availability of the Group’s resources; and (vi) scale of the project. The Group may also conduct a site inspection for the potential project, if necessary. Once the executive Directors consider the potential project is feasible based on their review and assessment, the Group will begin the preparation of the tender by conducting a series of analysis, such as costing and pricing, construction programme and technical analysis.

The Group is generally required to submit the tender approximately 2 to 5 weeks upon the receipt of the tender document. In accordance with the specifications provided by the Group’s customer, the tender for a typical design and build project generally includes (i) the offer price with breakdown of work items and materials required with rate and required quantities (i.e. the Schedule of Rates); (ii) construction methodology; (iii) programme with estimation of the time required for completing each stage of work to be provided; (iv) tender drawings; and (v) materials offer list.

The following table sets forth a summary of the number of tenders submitted, number of design and build projects awarded and tender success rate of the Group during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
Number of tenders submitted for design and build projects	31	39	31
Number of design and build projects awarded	7	7	9
Tender success rate (%)	22.6	17.9	29.0

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## BUSINESS

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Upon receipt of the tender submission made by the Group, the customer may request for a tender interview to discuss with the Group further in respect of the tender submitted. Award of contract is generally confirmed by way of a letter of acceptance or letter of award issued by the Group’s customers. The Group will then enter into a formal contract with its customers at a later stage. Upon confirmation of engagement with the Group’s customers and depending on the nature and scope of works required for any given project, the Group will secure the engagement with its suppliers and subcontractors accordingly. For further details on the salient terms of the design and build contract, please refer to the sub-section headed “Customers — Salient terms of design and build contracts” in this section.

### *Project planning and execution stage*

Upon award of a contract, the Group will form a project management team to oversee and manage the design and build project. A typical project management team usually comprises a project director and/or a project manager, a design manager, a project engineer and a project secretary. The project management team is led by a project director or a project manager, who is responsible for all aspects of the project including general project management, communicating with other team members, coordinating with customers and subcontractors, quality control management, supervising the work progress and budget monitoring. The project manager will liaise with the procurement department in relation to materials procurement and will directly report to an executive Director on the work progress. The project manager will attend meetings with the customers to review the project status on a regular basis.

Apart from project management, the Group is also responsible for the preparation of a facade or curtain wall system design, structural calculation, shop drawings, fabrication specification and installation method. For most of the design and build projects, a design intent will be given to the Group by its customers and the Group is responsible for the design modification and which also involved structural calculation to assess the feasibility of the design and installation works. Accordingly, a system design and structural calculation will be submitted to the customers and/or the Buildings Department to obtain an approval for execution. The Group’s design team in Hong Kong is responsible for the overall development of the system design and shop drawings including structural calculations while the preparation of fabrication drawings, which generally does not involve any structural calculations, will be exclusively assigned to its design team in Shenzhen office.

During the Track Record Period, the Group had engaged independent third parties to provide some of these drawing works with a majority being fabrication drawing works and the design fees paid to independent third parties were approximately HK\$10.2 million, HK\$8.0 million and HK\$5.2 million, respectively. After the establishment of G & M Design in January 2016, a majority of the fabrication drawings works have been allocated to G & M Design. The Directors believe that it is more cost-effective to allocate certain parts of the design works such as fabrication drawings to Shenzhen office than to recruit a team of draftsmen in Hong Kong or to engage independent third parties to do such works. As at the Latest Practicable Date, the Group had 12 staff in the design team in Hong Kong and 21 staff in the design team in the PRC.

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As soon as the Group has obtained the approval on the material submissions from its customers and/or its agent, its procurement department will begin the preparation of materials purchase and fabrication arrangement. Materials used in the Group’s design and build projects mainly comprise aluminium extrusion, aluminium sheet, steel, stainless steel and glass. The Group is generally required to submit samples of the materials and testing reports issued by independent third parties to its customer for approval. The Group generally requires its supplier to deliver the materials directly to the construction site if no fabrication or processing is needed. For materials that require further fabrication or processing, the Group will engage external processing factories to carry out the fabrication or processing works and the fabricated materials will normally be sent to the construction site directly by the processing factories. In accordance with the requirements of the Buildings Department, curtain wall systems will be required to undergo a series of tests by independent laboratories, including but not limited to a safety test. In contrast, although podium facade may not be required by the Buildings Department to undergo any particular test, testing will be arranged upon request of the Group’s customers. For further details on the Group’s suppliers, please refer to sub-section headed “Suppliers” in this section.

As the Group does not employ any direct labour to execute the installation works at site, it generally procures subcontractors from its approved list to carry out the installation works. For further details, please refer to the sub-section headed “Subcontractors — Basis for selection of subcontractors” in this section.

Throughout the project execution stage, the Group’s project management team, in particular the assigned project manager, will closely monitor the progress of the project on a continuous basis. The project management team will communicate with the executive Directors to discuss and/or update them on the project status from time to time and identify any problems that need to be resolved during the project execution stage.

For some projects, the Group may require machines and equipment to carry out the execution works. The Group owns (i) a glazing machine for glass polishing; and (ii) a glass installation robot for glass installation. The glazing machine had been purchased for a number of years and was fully depreciated and the remaining useful life of the glass installation robot based on accounting estimation is approximately 4 years. For the projects that require machines and equipment other than those owned by the Group or the Group’s own machines and equipment are not available, the Group may (i) arrange the leasing of the machines and equipment from its approved list of suppliers; or (ii) have its subcontractors arrange the machines and equipment themselves at the cost of the Group.

Although the installation works will be carried out by the Group’s subcontractors, the Group is liable for the works produced by them. In order to maintain the quality of the works of the subcontractors, the Group typically conducts on-site inspection on their work done to ensure any non-conformance identified is resolved and to evaluate their performance. For further details on the Group’s subcontractors, please refer to sub-section headed “Subcontractors — Control on subcontractors” in this section. In respect of work safety, the Group will arrange an external safety officer for sites with more than 50 workers or an in-house safety supervisor for sites with less than 50 workers to oversee work safety and conduct inspections regarding the work safety at the construction site. Pursuant to section 6BA of the Factories and Industrial Undertakings Ordinance, any workers who work in the site of the Group’s projects, regardless whether he is an employee of the

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## BUSINESS

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Group or the Group’s subcontractors, should have received safety training (referred to as mandatory basic safety training) and hold a valid construction industry safety training certificate (commonly known as Green Card) before he can carry out construction work. Some of the Group’s customers may also offer extra safety training for the Group’s workers.

During the course of a project, customers of the Group may require additional services or amendments in the specifications which will result in extra works to be performed by the Group. The Group generally confirms the variation orders with its customers by way of email confirmation or additional work orders, the unit rates for the works under such variation order are in general agreed upon between the Group and the customers and are set out in the Schedule of Rates as provided in the relevant project contract.

For most of the Group’s design and build projects, normally monthly or interim payment will be made to the Group by its customers based on the Group’s works completed during such month or such period. Some of the Group’s customers will withhold usually 10% of each payment as retention money until the accumulated retention money reaches 5% of the total contract sum. For further details of the payment terms, please refer to the sub-section headed “Customers — Salient terms of design and build contracts” in this section.

For those projects, upon satisfactory completion of the installation works as set out in the contract and receipt of a practical completion certificate issued by the authorised person, generally up to half of the retention money of such project will be released upon issue of the practical completion certificate.

### *Post-project completion stage*

The Group generally provides a defects liability period to its customer, which begins on the practical completion date of the design and build project and normally ranges from 12 to 24 months, subject to different terms as set out in the contracts. During the defects liability period, the Group is responsible, at its own costs, for remedial works which may arise from the defective works or materials used. In order to protect the Group’s interest, the Group generally withholds 10% of each payment to its subcontractors as retention money, of which usually half of the retention money will be released upon practical completion and the remaining half will be released after 6 months after the practical completion. Apart from the defects liability period, the Group also provides a warranty on certain aspects, including but not limited to glazing and waterproofing works of approximately 10 to 15 years from the end of the defects liability period and the Group’s suppliers of glass and finishes of aluminium generally provide warranty of their products of similar length to the Group. At the end of the defects liability period, customers of the Group will issue the certificate of completion of making good defects and the remaining retention money will be released upon issue of the certificate of completion of making good defects.

During the Track Record Period, the Group did not incur any material expenses in relation to the follow-up works during the defects liability period of its design and build projects.

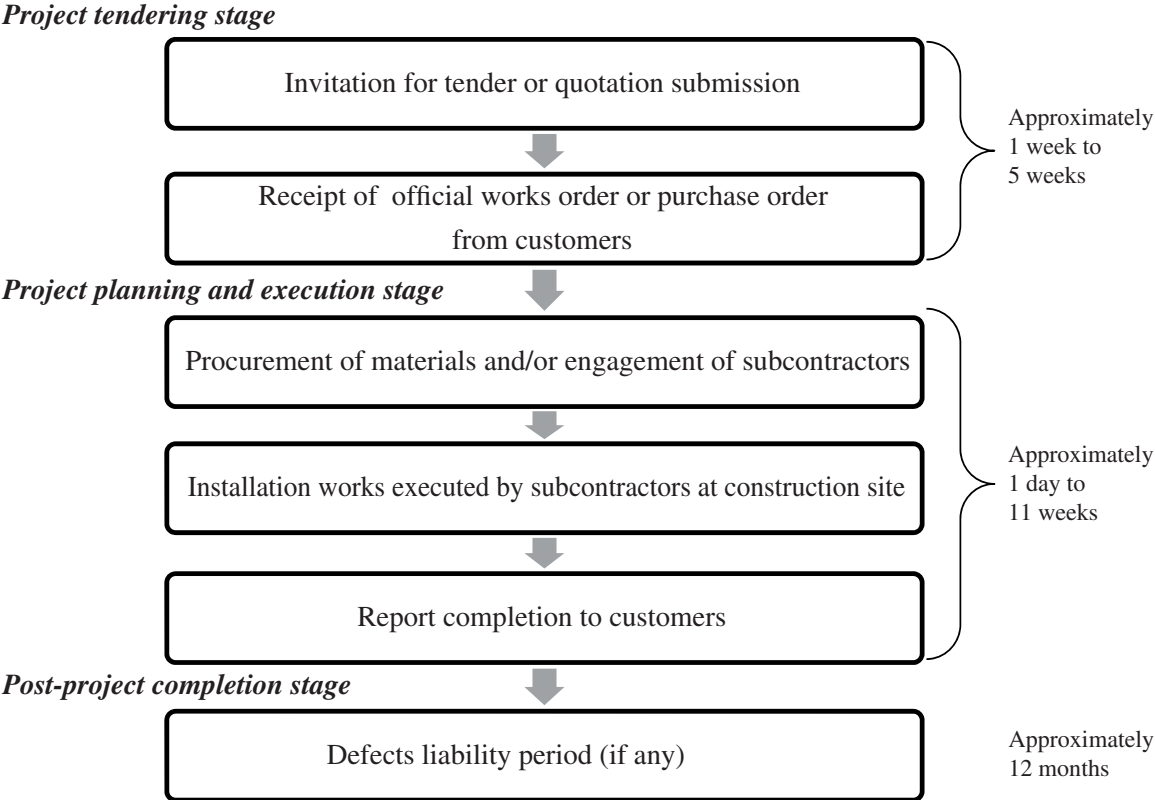
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**BUSINESS**

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**One-off repair and maintenance services**

During the Track Record Period, the Group completed a total of 196 one-off repair and maintenance works orders. Set out below is a flow chart summarising a usual workflow of a typical one-off repair and maintenance works order:



**Project tendering stage**

The Group is generally invited by its customers to submit a tender or provide a quotation for one-off repair and maintenance works. Details of the one-off repair and maintenance works required, such as location of works, scope of works and material specification will generally be set out in the invitation. If necessary, the Group may conduct a site inspection for the potential repair works. The Group is generally required to submit the tender or quotation within 3 days to 3 weeks upon the receipt of the invitation. Upon confirmation of engagement, customers of the Group will issue an official works order or purchase order to confirm the engagement with the Group.



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The following table sets forth a summary of the number of tenders or quotations submitted, number of works orders received and the relevant tender success rate during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
Number of tenders or quotations submitted	121	192	166
Number of works orders received	55	86	68
Tender success rate (%)	45.5	44.8	41.0

### *Project planning and execution stage*

In general, no design work will be involved in a one-off repair and maintenance works order. Therefore, the Group will begin the procurement of materials and subcontractors upon receipt of the official works order or purchase order from its customers. Similar to the operating procedures of a typical design and build project, the Group will procure materials in accordance with the specifications set out in the works order or purchase order and will engage third parties processing factories to carry out the fabrication or processing works, if needed. The materials will normally be sent to the construction site directly by the suppliers. The installation works at construction site will be carried out by the Group’s subcontractors while the Group’s project management department will be responsible for overseeing and supervising the installation works.

Once the installation works at construction site are completed, the Group’s customers will report completion to customers to confirm that the one-off repair and maintenance works were duly completed by the Group.

### *Post-project completion stage*

Upon request by the Group’s customers, the Group may provide a defects liability period of generally 12 months, starting from the practical completion date, for its one-off repair and maintenance works.

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## BUSINESS

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### LICENCES AND PERMITS

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Group has obtained all material licences, permits and registration required for carrying on its business operations in Hong Kong, details of which are set out below:

<b>Licences</b>	<b>Holder</b>	<b>Issuing authority</b>	<b>Type(s) of works covered</b>	<b>Expiry date</b>
Registered Minor Works Contractors (Classes I, II and III) ( <i>Note 1 &amp; 2</i> )	G & M Engineering	Buildings Department	Minor works include alteration & addition works and signboard related works as set out in the Building (Minor Works) Regulation	18 October 2018
Registered Subcontractor	G & M Engineering	Construction Industry Council	Marble, granite and stone work, window fabrication and installation, shutters/doors fabrication and installation, painting, metal work, other finishing trades and components, renovation and fitting-out	30 March 2019
Registered Subcontractor	G & M Maintenance	Construction Industry Council	Marble, granite and stone work, window fabrication and installation, shutters/doors fabrication and installation, tanking and waterproofing, painting, metal work, other finishing trades and components, renovation and fitting-out	28 April 2019

*Notes:*

- Minor works are classified into three classes (Class I, II and III) according to their scale, complexity and risk to safety and are subject to different degrees of control. Class I (total of 44 items) includes mainly those relatively more complicated minor works. Class II (total of 40 items) comprises those of comparatively lower complexity and risk to safety. Class III (total of 42 items) mainly includes common household minor works. Minor works are also grouped into seven types (i.e. Type A, B, C, D, E, F and G) according to their nature. G & M Engineering is registered for carrying out Type A (Alteration and Addition Works) minor works under Classes I, II and III and Type C (Signboard Related Works) minor works under Classes I, II and III. Please refer to the section headed “Regulatory overview” in this [REDACTED] for further details.

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2. As at the Latest Practicable Date, the technical director is Mr. Lee and there were two authorised signatories. The following sets forth the details of the authorised signatories:

<b>Name of authorised signatory</b>	<b>Registered class of minor works</b>	<b>Registered type of minor works</b>
Tong Wai Shing, Wilson	I, II, III	A, C
Chang Wai Hung	II, III	A, C

Renewal of the above-mentioned registrations is required every three years. The Directors confirm that the Group did not experience any material difficulties in obtaining and/or renewing such licences, permits, consents and approvals. Further, the Directors confirm that they are not aware of any circumstances that would significantly hinder or delay the renewal of such licences, permits, consents and approvals.

In particular, in order for G & M Engineering to maintain the registration as a Registered Minor Works Contractor, G & M Engineering must have at least one authorised signatory to act for it for the purposes of the Buildings Ordinance and one technical director to carry out certain duties including, among others, providing technical support for the execution of works and ensuring that the works are carried out in accordance with the Buildings Ordinance. The Group has the following contingency plan in place in the case of retirement or resignation of any of the authorised signatory and technical director:

- (i) According to the practice note issued by the Buildings Department, there will not be any immediate effect to the ongoing projects if an acceptable replacement of technical director is appointed within a reasonable period of time. Currently, Mr. Lee is the technical director. In the event Mr. Lee retires or resigns, G & M Engineering intends to appoint Mr. Wong Siu Fung, Kris as the technical director. The Directors consider that Mr. Wong Siu Fung, Kris possesses sufficient academic qualifications and industry experience such that he would satisfy the qualification and experience requirements specified by the Buildings Department; and
- (ii) According to the practice note issued by the Buildings Department, the Building Authority only needs one authorised signatory to act for the Registered Minor Works Contractor for each project. Mr. Tong Wai Shing, Wilson and Mr. Chang Wai Hung can be the readily available alternate authorised signatory of Class II and III works in case of retirement or resignation of each other. Regarding Class I works, in the event Mr. Tong Wai Shing, Wilson retires or resigns, G & M Engineering intends to appoint Mr. Lai Kwong Lam Louis as the authorised signatory. The Directors consider that Mr. Lai Kwong Lam Louis possesses sufficient academic qualifications and industry experience such that he would satisfy the qualification and experience requirements specified by the Buildings Department.

As such, the Directors consider that they are not aware of any circumstances that would significantly hinder or delay the Group’s business operations which required the registration as a Registered Minor Works Contractor.

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For any works where any member of the Group is involved as a subcontractor, if there is a registered general building contractor and/or specialist contractor under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) to supervise the works and liaise with the Buildings Department, the relevant member of the Group is not required to hold such licence or registration or to obtain any requisite licences, permits and approval for its operation and business except the business registration. However, being registered on the Subcontractor Registration Scheme at the Construction Industry Council is required for subcontractors to participate in public projects commissioned by certain Government authorities and statutory bodies, such as the Development Bureau and Hong Kong Housing Authority.

The Directors, upon obtaining legal advice, confirm that during the Track Record Period and up to the Latest Practicable Date, the Group has obtained all necessary licences, permits, consents and approvals for the Group’s business operations in Hong Kong respectively and all of them are valid.

### CUSTOMERS

#### Profile of the Group’s customers

The Group’s customer types generally include main contractor, property developer, commercial enterprise and public body. During the Track Record Period, all of the Group’s major customers are located in Hong Kong and all of the Group’s revenue was denominated in Hong Kong dollars.

#### Major customers

For each of the three years ended 31 December 2016, the percentage of the Group’s total revenue attributable to the Group’s largest customer amounted to approximately 52.4%, 85.7% and 64.7%, respectively, while the percentage of the Group’s total revenue attributable to the Group’s five largest customers, in aggregate, amounted to approximately 91.2%, 96.1% and 96.9%, respectively.

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Set out below is a breakdown of the Group’s revenue attributable to the Group’s top five customers during the Track Record Period:

*For the year ended 31 December 2014*

	<b>Revenue for the year HK\$’000</b>	<b>Approximate % of the Group’s total revenue for the year</b>
SHK Properties	79,293	52.4
Customer A	36,859	24.4
Customer B	11,942	7.9
Customer C	5,428	3.6
Customer D	<u>4,450</u>	<u>2.9</u>
<b>Five largest customers in aggregate</b>	137,972	91.2
All other customers	<u>13,332</u>	<u>8.8</u>
<b>Total revenue</b>	<u><u>151,304</u></u>	<u><u>100.0</u></u>

*For the year ended 31 December 2015*

	<b>Revenue for the year HK\$’000</b>	<b>Approximate % of the Group’s total revenue for the year</b>
SHK Properties	187,630	85.7
Customer A	6,947	3.2
Wan Chung Construction Company Limited	6,344	2.9
Customer E	4,836	2.2
Customer C	<u>4,632</u>	<u>2.1</u>
<b>Five largest customers in aggregate</b>	210,389	96.1
All other customers	<u>8,431</u>	<u>3.9</u>
<b>Total revenue</b>	<u><u>218,820</u></u>	<u><u>100.0</u></u>

THIS DOCUMENT IS IN DRAFT FORM. The information contained in it is in draft form, incomplete and subject to change and must be read in conjunction with the section headed “Warning” on the cover of this document.

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*For the year ended 31 December 2016*

	<b>Revenue for the year HK\$'000</b>	<b>Approximate % of the Group's total revenue for the year</b>
SHK Properties	177,277	64.7
Customer F	67,836	24.8
Customer G	14,023	5.1
Customer A	3,414	1.3
Design Unlimited Company Limited	<u>2,858</u>	<u>1.0</u>
<b>Five largest customers in aggregate</b>	265,408	96.9
All other customers	<u>8,504</u>	<u>3.1</u>
<b>Total revenue</b>	<u><u>273,912</u></u>	<u><u>100.0</u></u>



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Set out below is the background information of the Group’s top five customers during the Track Record Period:

<b>Customers</b>	<b>Services purchased from the Group</b> <i>(Note)</i>	<b>Background and principal business</b>	<b>Years of business relationship</b> <b>(approximately)</b>	<b>Typical credit terms and payment method</b> <b>(approximately)</b>
SHK Properties	(i) and (ii)	Several companies which mainly engage in building construction and project management and are subsidiaries of SHK Properties (stock code:16), a property developer listed in Hong Kong. The revenue and net profit of SHK Properties for the year ended 30 June 2016 amounted to approximately HK\$91.2 billion and HK\$33.4 billion, respectively	15 years	20 to 30 days upon submission of payment application by bank transfer
Customer A	(i)	A company located in Hong Kong engaging in racing and racecourse entertainment, membership, responsible wagering and charity and community contribution	12 years	30 days upon presentation of payment certificate by cheque or bank transfer
Customer B	(i)	A company which mainly engages in interior decoration, fitting out, design and contracting, and is a subsidiary of a property developer listed in Hong Kong and the revenue of the listed parent company for the year ended 31 December 2015 amounted to approximately HK\$5.9 billion	4 years	42 days upon issue of payment certificate by cheque or bank transfer

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<b>Customers</b>	<b>Services purchased from the Group</b> <i>(Note)</i>	<b>Background and principal business</b>	<b>Years of business relationship (approximately)</b>	<b>Typical credit terms and payment method (approximately)</b>
Customer C	(ii)	Several subsidiaries of a property investment company listed in Hong Kong and the revenue of the listed parent company for the year ended 31 December 2016 amounted to approximately HK\$16.8 billion	16 years	30 days upon issue of invoice by cheque or bank transfer
Customer D	(ii)	A subsidiary of a worldwide athletic footwear and apparel seller listed in the United States and the revenue of the listed parent company for the year ended 31 May 2016 amounted to approximately US\$32.4 billion	10 years	30 days upon issue of invoice by cheque or bank transfer
Wan Chung Construction Company Limited	(i)	A subsidiary of Vision Fame International Holding Limited (stock code: 1315), a building construction service company listed in Hong Kong. The revenue of the listed parent company for the year ended 31 March 2016 amounted to approximately HK\$2.5 billion	3 years	44 days upon issue of payment certificate by project owner by cheque

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Customers	Services purchased from the Group <i>(Note)</i>	Background and principal business	Years of business relationship <b>(approximately)</b>	Typical credit terms and payment method <b>(approximately)</b>
Customer E	(i)	A subsidiary of a public utility service provider listed in Hong Kong and the revenue of the listed parent company for the year ended 31 December 2015 amounted to approximately HK\$29.6 billion	4 years	30 days upon presentation of payment certificate by bank transfer
Customer F	(i)	A company located in Hong Kong engaging in construction business	1 year	60 days upon presentation of payment certificate by cheque
Customer G	(i)	A company located in Hong Kong engaging in civil engineering and contracting business	10 years	42 days upon issue of payment certificate by bank transfer
Design Unlimited Company Limited	(i)	A company located in Hong Kong engaging in interior design business	11 years	30 days upon issue of invoice by cheque

*Notes:*

- (i) Design and build services
- (ii) Repair and maintenance services

All of the Group’s top five customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group’s five largest customers during the Track Record Period.

### **Customer concentration**

For each of the three years ended 31 December 2016, approximately 91.2%, 96.1% and 96.9% of the Group’s total revenue was attributable to the Group’s five largest customers, respectively. In particular, the Group’s largest customer, SHK Properties, accounted for approximately 52.4%, 85.7% and 64.7% of the Group’s total revenue for the corresponding year, respectively. Please refer

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to the section headed “Risk factors — Revenue derived from the Group’s five largest customers accounted for a substantial portion of the Group’s revenue, inability to retain business relationship with them or secure new business may affect the Group’s operations and financial performance” in this [REDACTED] for the customer concentration risk.

The Directors consider that the significant revenue contribution by SHK Properties during the Track Record Period was mainly due to the following:

- the Group has developed business relationship with SHK Properties since 2003. Throughout these years, the Group has accumulated an in-depth understanding of SHK Properties’s requirements and is capable of accommodating the requests from SHK Properties and the Directors believe that this is a major reason for the Group having been engaged by subsidiaries of SHK Properties recurrently during the Track Record Period;
- in light of the stable payment record and the listing status of SHK Properties, the Directors consider that it is beneficial to the Group’s financial position and performance to allocate its resources to undertake projects and work orders from SHK Properties; and
- the demand for the Group’s services by SHK Properties was relatively strong and stable during the Track Record Period. During each of the three years ended 31 December 2016, the Group received 23, 21 and 13 tender invitations for design and build projects from SHK Properties, respectively, of which the Group responded and submitted tender for 14, 9 and 11 invitations, respectively. The Group had been awarded with 6, 5 and 4 design and build projects for the corresponding year, respectively, with an aggregate awarded contract sum of approximately HK\$220.3 million, HK\$140.3 million and HK\$130.7 million, respectively.

Despite the concentration on SHK Properties during the Track Record Period, the Directors consider that the Group’s business is sustainable due to the following reasons:

- considering the nature of the property development industry in Hong Kong in which the Group’s customers operate, the Group’s customer base comprising property developers and main contractors is relatively concentrated. According to the Ipsos Report, due to the concentration in the property development market in Hong Kong, it is common for the construction contractors or subcontractors to rely on a few customers. Ipsos has identified a total of 14 companies that are (i) newly listed on the Stock Exchange during the period April 2015 to April 2017; and (ii) subcontractors in the construction industry in Hong Kong. According to their respective listing documents, 9 of them have over 90% of revenue attributable to their top five customers for at least one financial year;

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- SHK Properties is a property developer group in Hong Kong with market capitalisation of approximately HK\$308.9 billion as at the Latest Practicable Date. According to the annual report for the year ended 30 June 2016 and the interim results announcement for the six months ended 31 December 2016 of SHK Properties, it had 25 major projects with scheduled completion date from 1 January 2017 to 30 June 2019, which the Directors consider that SHK Properties would provide a stable and substantial demand for the Group’s services;
- the design and build projects were generally obtained by the Group through tendering processes invited by customers, including SHK Properties. During the Track Record Period, the Group was required to enter separate design and build contracts for the design and build projects awarded by SHK Properties on a project-by-project basis. The Directors believe that SHK Properties can make its procurement on a project-by-project basis and hence the failure of winning a tender for one project of SHK Properties would not affect the chance of winning tenders for other projects;
- the Group undertakes design and build projects of considerably different scales with project period normally ranges from approximately 3 to 29 months, therefore customer of a single or a few sizeable design and build project(s) can easily become the largest customer of the Group in terms of revenue contribution to the Group for more than one financial year;
- the Group has been providing podium facade and curtain wall works mainly as a subcontractor in Hong Kong over 20 years. Apart from SHK Properties, the Group has business relationship, ranging from 1 year to 16 years, with its other top five customers during the Track Record Period, of which five of them have business relationship of more than 10 years with the Group. The Directors believe that the Group’s operating history with a wide range of project references allow the Group to consolidate its reputation and secure projects from different property developers and main contractors;
- the Group has been making continuous efforts to expand its customer base and it secured contracts or work orders from 22 new customers during the Track Record Period. For each of the three years ended 31 December 2016, these new customers in aggregate contributed approximately HK\$3.1 million, HK\$10.7 million and HK\$72.3 million to the Group’s revenue, respectively, representing approximately 2.1%, 4.9% and 26.4% of the Group’s total revenue of the corresponding year, respectively;
- during each of the three years ended 31 December 2016, the Group had received a total of 67, 80 and 52 tender invitations for design and build projects from its customers, of which 44, 59 and 39 were from customers other than SHK Properties, respectively, and the Group had declined and did not respond to a total of 36, 41 and 18 tender invitations, of which 27, 29 and 16 were from customers other than SHK Properties, respectively. The Directors consider that, besides SHK Properties, the Group’s other customers have strong demand for the Group’s services. In addition, in view of the expected growth of the podium facade and curtain wall works industry in Hong Kong in the coming few years according to the Ipsos Report, even if any of the Group’s major customers does not award new business to the Group in the future, the Directors believe that the Group would then be able to utilise its capacity to take up other projects from other customers; and

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- as at 31 March 2017, the Group had 10 design and build projects on hand, 6 of which are attributable to SHK Properties and 4 of which are attributable to other customers, representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced, with an aggregate awarded contract sum of approximately HK\$519.2 million with an amount of outstanding awarded contract sum as at 31 December 2016 amounted to approximately HK\$362.9 million, of which approximately HK\$160.2 million is attributable to SHK Properties and approximately HK\$202.7 million is attributable to other customers.

Having said that, the Group strives to broaden its customer base to reduce its reliance on SHK Properties. Subsequent to the Track Record Period and up to 31 March 2017, the Group submitted 8 tenders to new customers and, as at 31 March 2017, the Group is in the course of assessing and considering 2 invitations from other new customers. As at 31 March 2017, there were 10 design and build projects that the Group had yet to receive results after submitting the tenders with an aggregate expected contract sum of approximately HK\$446.2 million, of which (i) none of them is attributable to SHK Properties; (ii) approximately HK\$219.3 million is attributable to new customers; and (iii) approximately HK\$226.9 million is attributable to other recurring customers.

During the Track Record Period, the Group had declined and did not respond to approximately 36, 41 and 18 invitations, respectively, due to limitation of financial resources and manpower. The Group intends to tender for more design and build projects with different scales from different customers to diversify its customer base. In order to enhance the Group’s capability to undertake more business from other customers, the Directors intend to apply the net proceeds from the [REDACTED] to (i) finance the net cash outflows required in the early stage of new design and build projects; (ii) further expand the Group’s manpower to increase the Group’s capacity to undertake more design and build projects; and (iii) further strengthen the Group’s capital base and liquidity position to satisfy the surety bonds requirements for potential design and build projects. For further details on the Group’s future plan and use of proceeds, please refer to the section headed “Future plans and use of proceed” in this [REDACTED]. The Directors believe that the [REDACTED] status and enhanced financial position of the Group with the net proceeds from the [REDACTED] would provide more flexibility for the Group to tender more design and build projects and broaden its customer base.

### **Pricing strategy**

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 generally 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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### Salient terms of design and build contracts

The Group is generally engaged by its customers in its design and build projects on a project-by-project basis. The Directors consider that such arrangement is in line with the industry practice in Hong Kong. The terms of each design and build contract entered into between the Group and its customers may vary, but the salient terms of a typical design and build contract are shown below:

- Scope of work : The scope of services and type of works to be carried out by the Group are specified in the project contract. Contracts may also include the product specifications and requirements as set out by its customers.
- Duration of work : The Group shall follow the pre-determined work schedule as set out in the contract, which may be extended from time to time pursuant to the terms of the contract.
- Contract sum : The Group’s project contracts are mainly lump sum fixed price contracts in which the contract payment will be based on a fixed contract sum agreed in the contract for carrying out the whole of the works as specified and no re-measurement will be conducted except for works conducted pursuant to variation order issued by customers.

During the Track Record Period, the Group undertook one term contract related to design and build services for podium facade and related works which was entered into between G & M Engineering and Customer A in April 2011 with a contract period of 36 months. The term contract resembles a framework agreement that sets out the unit price of services to be provided by the Group, the unit price will be adjusted annually in accordance with the Building Works Tender Price Index published by the Architectural Services Department. Customer A will place separate works orders to the Group with reference to the unit price set out in the term contract. The last works order related to this term contract was completed in March 2015. As at the Latest Practicable Date, the Group had no term contract on hand.

- Subcontracting : The Group is generally not prohibited to engage subcontractor to carry out the works. The Group is primarily responsible for the works performed by its subcontractors.

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- Insurance : The Group or its customers are responsible for all necessary insurances for its subcontractors, such as employees’ compensation, contractors all risk insurance and third party liability insurance.
- Surety bond : For some of the contracts, the Group is required to provide a surety bond generally equivalent to approximately 10% of the total contract sums issued by banks or insurance companies in favour of the customers as security for the due performance and observance of the Group’s obligations under the relevant project. The surety bonds are normally released upon completion of the project or as specified in the relevant contract.
- Payment terms : For further details regarding the payment terms, please refer to the sub-section headed “Customers — Credit policy” in this section.
- Defects liability period : The Group generally provides a defects liability period ranging from 12 to 24 months for its design and build projects. During the defects liability period, the Group is responsible, at its own costs, for remedial works which may arise from the defective works or materials used.
- Retention money : For further details regarding the payment terms, please refer to the sub-section headed “Customers — Credit policy” in this section.

### **Credit policy**

In respect of the Group’s design and build projects, the Group is generally required to submit payment application to obtain monthly or interim payment from its customers with regard to its works done on the basis as set out in the contract. For some of the projects, the Group’s customers and/or their authorised persons will then carry out an inspection on the completed works and issue a payment certificate to certify the portion of works completed by the Group. It generally takes less than 1 month to obtain the payment certificate from the payment application submission date. Upon receipt of the payment certificate, the Group will issue an invoice to its customers.

In most of the Group’s design and build projects, customers usually retain 10% from each monthly or interim payment as retention money until the accumulated retention money reaches 5% of the total contract sum. In general, half of the retention money will be released upon practicable completion of the project and the remaining half will be released after the defect liability period.

During the Track Record Period, all of the Group’s major customers were located in Hong Kong and all of the Group’s revenue was denominated in Hong Kong dollars, and the payments were generally settled by cheques or bank transfers. The credit period granted by the Group to its customers ranged from 20 to 60 days. The Group will continuously review and identify any long outstanding trade receivables. For further details on the Group’s receivable turnover days, please refer to section headed “Financial information — Trade and other receivables” in this [REDACTED].



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### SUPPLIERS

#### Profile of the Group’s suppliers

The Group’s suppliers generally include suppliers for (i) building materials to be consumed in its design and build projects, such as aluminium, metal and glass; (ii) material fabrication or processing services; and (iii) machines and equipment leasing services. During the Track Record Period, all of the Group’s major suppliers were either located in Hong Kong or the PRC.

#### Major suppliers

For each of the three years ended 31 December 2016, the percentage of the Group’s total purchases attributable to the Group’s largest supplier amounted to approximately 32.6%, 44.0% and 29.0%, respectively, while the percentage of the Group’s total purchases attributable to the Group’s five largest suppliers, in aggregate, amounted to approximately 66.6%, 63.9% and 60.6%, respectively.

Set out below is a breakdown of the Group’s purchases attributable to the Group’s top five suppliers during the Track Record Period:

#### *For the year ended 31 December 2014*

	<b>Purchases for the year HK\$’000</b>	<b>Approximate % of the Group’s total purchases for the year</b>
Supplier A	12,123	32.6
Supplier B	5,392	14.5
Supplier C	2,780	7.5
Supplier D	2,537	6.8
Supplier E	<u>1,924</u>	<u>5.2</u>
<b>Five largest suppliers in aggregate</b>	24,756	66.6
All other suppliers	<u>12,435</u>	<u>33.4</u>
<b>Total purchases</b>	<u><u>37,191</u></u>	<u><u>100.0</u></u>

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*For the year ended 31 December 2015*

	<b>Purchases for the year HK\$'000</b>	<b>Approximate % of the Group's total purchases for the year</b>
Supplier A	26,531	44.0
Supplier B	3,873	6.4
Supplier D	3,171	5.3
Supplier C	2,975	4.9
Supplier F	<u>2,013</u>	<u>3.3</u>
<b>Five largest suppliers in aggregate</b>	38,563	63.9
All other suppliers	<u>21,802</u>	<u>36.1</u>
<b>Total purchases</b>	<u><u>60,365</u></u>	<u><u>100.0</u></u>

*For the year ended 31 December 2016*

	<b>Purchases for the year HK\$'000</b>	<b>Approximate % of the Group's total purchases for the year</b>
Supplier A	21,139	29.0
Supplier G	8,479	11.6
Supplier B	5,179	7.1
Supplier H	5,062	6.9
Supplier I	<u>4,389</u>	<u>6.0</u>
<b>Five largest suppliers in aggregate</b>	44,248	60.6
All other suppliers	<u>28,617</u>	<u>39.4</u>
<b>Total purchases</b>	<u><u>72,865</u></u>	<u><u>100.0</u></u>

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Set out below is the background information of the Group’s top five suppliers during the Track Record Period:

<b>Suppliers</b>	<b>Products sold and/or services provided to the Group</b>	<b>Background and principal business</b>	<b>Years of business relationship (approximately)</b>	<b>Typical credit terms and payment method (approximately)</b>
Supplier A	Metal and aluminium fabrication	A company located in Hong Kong engaging in the aluminium engineering business	17 years	60 days upon receipt of invoice by cheque or import invoice financing
Supplier B	Glass	A subsidiary of a company engaging in glass fabrication and facade business which is listed in the PRC and the revenue of the listed parent company for the year ended 31 December 2015 amounted to approximately RMB4.5 billion	9 years	30 days upon receipt of invoice by cheque or import invoice financing
Supplier C	Aluminium extrusion	A company located in Hong Kong engaging in the aluminium trading business	13 years	Collect on delivery by cheque
Supplier D	Metal and aluminium fabrication	A company located in Hong Kong engaging in the engineering and metal hardware processing business	3 years	30 days upon receipt of invoice by cheque
Supplier E	Metal and aluminium fabrication	A company located in Hong Kong engaging in the engineering business	10 years	30 days upon receipt of invoice by cheque or import invoice financing
Supplier F	Metal and aluminium fabrication	A company located in Hong Kong engaging in the metal processing business	2 years	30 days upon receipt of invoice by cheque

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<b>Suppliers</b>	<b>Products sold and/or services provided to the Group</b>	<b>Background and principal business</b>	<b>Years of business relationship (approximately)</b>	<b>Typical credit terms and payment method (approximately)</b>
Supplier G	Aluminium and cladding fabrication	A company located in Hong Kong engaging in the sales of metal products business	11 years	30 days upon receipt of invoice by cheque or import invoice financing
Supplier H	Aluminium extrusion	A subsidiary of an aluminium profiles manufacturer listed in Hong Kong and the revenue of the listed parent company for the year ended 31 December 2015 amounted to approximately RMB5.0 billion	5 years	30 days upon receipt of invoice by cheque or import invoice financing
Supplier I	Aluminium sliding systems	A company located in Hong Kong engaging in the facade solutions business	2 years	30 days upon receipt of invoice by cheque

All of the Group’s top five suppliers during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group’s five largest suppliers during the Track Record Period.

**Basis for selection of suppliers**

The Group maintains an internal list of approved suppliers and such list is updated on a continuous basis. As at the Latest Practicable Date, the Group had no less than 127 approved suppliers on its internal list of approved suppliers. The Group selects the suppliers based on a number of criteria including but not limited to their technical capability, track records, prices, product quality and timely delivery. The Group generally sources materials from suppliers after the contract is awarded.

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The Directors confirm that, during the Track Record Period, the Group did not experience any material shortage or delay in supply of goods or services required by the Group. Therefore, the Directors consider that the Group does not place any significant reliance on any single supplier and that the possibility of material shortage or delay is low given the abundance of suppliers of the same kind in the market. In addition, the Group did not experience any material fluctuation in the prices of goods during the Track Record Period. For the sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group’s material and processing charges, please refer to the section headed “Financial information — Principal components of results of operations — Cost of revenue — (i) Material and processing charges” in this [REDACTED]. The Directors consider that the Group is able to pass on any increase in purchase costs to its customers as the Group generally takes into account the overall costs of undertaking a project when preparing the tender.

### Salient purchase terms

The Group generally makes purchase orders on a project-by-project basis instead of entering into long-term supply contracts with its suppliers. The Directors consider that such arrangement is in line with the industry practice in Hong Kong. During the Track Record Period, the Group made its purchases by placing purchase orders upon receiving quotations on the required materials and goods from the suppliers. The terms of the purchase orders issued by the Group to its suppliers may vary, but the salient terms of a typical purchase order are shown below:

Material specification	:	A description of the materials required such as the type of materials, quantity, size and technical specification of the products.
Payment terms	:	Cash on delivery or in accordance with the Group’s suppliers credit policy. For further details regarding the credit policy, please refer to the sub-section headed “Suppliers — Credit policy” in this section.
Deposit	:	Some of the Group’s suppliers require 30% to 50% of the total purchase order amount as deposit while most of the Group’s suppliers do not require any deposit.
Delivery	:	The Group’s suppliers generally deliver the goods directly to the construction site or other designated location. Occasionally, the Group picks up the goods by themselves.
Warranty	:	For specific materials such as glass and finishes of aluminium, a warranty of 10 to 15 years will be provided by the suppliers.

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### Credit policy

During the Track Record Period, all of the Group’s major suppliers were located either in Hong Kong or the PRC, and most of the purchase orders made by the Group were denominated in Hong Kong dollars or Renminbi. The credit period granted to the Group by its suppliers ranged from 0 to 60 days. The Group usually settles the payment by cheque or import invoice financing upon delivery of the products, but sometimes the Group pays cash upon delivery of the products.

### Inventory control

The Group maintains a minimal level of inventories. The Group’s inventory mainly includes the raw materials to be fabricated by its suppliers, such raw materials are generally stored in the factories of the Group’s suppliers. Set out below is a breakdown of the Group’s inventories during the Track Record Period:

	As at 31 December		
	2014	2015	2016
	HK\$’000	HK\$’000	HK\$’000
<b>Inventories</b>			
Raw materials and consumables	<u>1,033</u>	<u>1,148</u>	<u>976</u>

There is no material obsolete stock in the Group’s inventory due to the characteristic of the building materials. For a detailed inventory analysis, please refer to the section headed “Financial information — Inventory analysis” in this [REDACTED].

## SUBCONTRACTORS

### Profile of the Group’s subcontractors

Both of the Group’s design and build projects and one-off repair and maintenance work orders require labour intensive installation works. As the Group does not employ any direct labour, the Group subcontracts all the installation works to external subcontractors. During the Track Record Period, all of the Group’s subcontractors were located in Hong Kong.

### Major subcontractors

For each of the three years ended 31 December 2016, the percentage of the Group’s total subcontracting charges attributable to the Group’s largest subcontractor amounted to approximately 24.5%, 24.6% and 23.7%, respectively, while the percentage of the Group’s total subcontracting charges attributable to the Group’s five largest subcontractors, in aggregate, amounted to approximately 58.2%, 72.1% and 64.4%, respectively.

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Set out below is a breakdown of the Group’s subcontracting charges attributable to the Group’s top five subcontractors during the Track Record Period:

*For the year ended 31 December 2014*

	<b>Subcontracting charges for the year HK\$’000</b>	<b>Approximate % of the Group’s total subcontracting charges for the year</b>
Subcontractor A	8,786	24.5
Subcontractor B	5,243	14.6
Subcontractor C	3,690	10.3
Subcontractor D	1,652	4.6
Subcontractor E	<u>1,501</u>	<u>4.2</u>
<b>Five largest subcontractors in aggregate</b>	20,872	58.2
All other subcontractors	<u>14,919</u>	<u>41.8</u>
<b>Total subcontracting charges</b>	<u><u>35,791</u></u>	<u><u>100.0</u></u>

*For the year ended 31 December 2015*

	<b>Subcontracting charges for the year HK\$’000</b>	<b>Approximate % of the Group’s total subcontracting charges for the year</b>
Subcontractor A	14,099	24.6
Subcontractor B	12,746	22.2
Subcontractor C	9,319	16.3
Subcontractor F	2,844	5.0
Subcontractor G	<u>2,289</u>	<u>4.0</u>
<b>Five largest subcontractors in aggregate</b>	41,297	72.1
All other subcontractors	<u>16,040</u>	<u>27.9</u>
<b>Total subcontracting charges</b>	<u><u>57,337</u></u>	<u><u>100.0</u></u>

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*For the year ended 31 December 2016*

	<b>Subcontracting charges for the year HK\$'000</b>	<b>Approximate % of the Group's total subcontracting charges for the year</b>
Subcontractor A	17,265	23.7
Subcontractor C	14,484	19.9
Subcontractor H	6,141	8.4
Subcontractor I	5,666	7.8
Subcontractor B	<u>3,359</u>	<u>4.6</u>
<b>Five largest subcontractors in aggregate</b>	46,915	64.4
All other subcontractors	<u>25,970</u>	<u>35.6</u>
<b>Total subcontracting charges</b>	<u><u>72,885</u></u>	<u><u>100.0</u></u>

Set out below is the background information of the Group's top five subcontractors during the Track Record Period:

<b>Subcontractor</b>	<b>Services provided to the Group</b>	<b>Background and principal business</b>	<b>Years of business relationship (approximately)</b>	<b>Typical credit terms and payment method (approximately)</b>
Subcontractor A	Installation works in relation to podium facade	A company located in Hong Kong engaging in the engineering business	4 years	30 days upon receipt of invoice by cheque
Subcontractor B	Provision of materials and installation works in relation to podium facade	A branch of a company located in Hong Kong engaging in the metal installation works business	11 years	30 days upon receipt of invoice by cheque
Subcontractor C	Installation works in relation to podium facade	A company located in Hong Kong engaging in the engineering business	9 years	30 days upon receipt of invoice by cheque



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<b>Subcontractor</b>	<b>Services provided to the Group</b>	<b>Background and principal business</b>	<b>Years of business relationship (approximately)</b>	<b>Typical credit terms and payment method (approximately)</b>
Subcontractor D	Installation works in relation to glasses, aluminium and steel	A partnership located in Hong Kong engaging in the glass engineering business	3 years	30 days upon receipt of invoice by cheque
Subcontractor E	Installation works in relation to podium facade	A company located in Hong Kong engaging in the construction engineering business	5 years	30 days upon receipt of invoice by cheque
Subcontractor F	Installation works in relation to podium facade	A company located in Hong Kong engaging in the engineering business	3 years	30 days upon receipt of invoice by cheque
Subcontractor G	Installation works in relation to podium facade	A sole proprietorship located in Hong Kong engaging in the contracting business	5 years	30 days upon receipt of invoice by cheque
Subcontractor H	Installation works in relation to podium facade	A sole proprietorship located in Hong Kong engaging in the glass engineering business	7 years	30 days upon receipt of invoice by cheque
Subcontractor I	Installation works in relation to podium facade	A company located in Hong Kong engaging in metal installation works	1 year	30 days upon receipt of invoice by cheque

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All of the Group’s top five subcontractors during the Track Record Period are Independent Third Parties. To the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group’s five largest subcontractors during the Track Record Period.

### **Basis for selection of subcontractors**

The Group maintains an internal list of approved subcontractors and such list is updated on a continuous basis. As at the Latest Practicable Date, the Group had no less than 200 approved subcontractors on its internal list of approved subcontractors. While assessing whether a subcontractor is qualified to be on the list, the Group carefully evaluates its technical capability, job reference, pricing competitiveness, labour resources and past safety performance.

In each project, the Group generally selects two or more subcontractors from the approved list based on their relevant skillsets and experience and invites them to provide a quotation. The Group will then select the most suitable subcontractor for the project with regard to, amongst other things, their availability, fee quotation and proposed delivery time.

During the Track Record Period, the Group had engaged not less than 204 subcontractors. Therefore, the Directors consider that the Group does not place any significant reliance on any single subcontractor. For the sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group’s subcontracting charges, please refer to the section headed “Financial information — Principal components of results of operations — Cost of revenue — (ii) Subcontracting charges” in this [REDACTED].

### **Control on subcontractors**

The Group has a project management team to oversee each of its projects, of which a project manager is assigned to monitor and supervise the working process of the subcontractors and ensures that they have met the safety and workmanship requirements and are responsible for coordination work on the construction site. Furthermore, the project manager shall arrange a joint inspection with the customer upon completion of the work done by the subcontractors to ensure that they are in line with the contract design.

The Group requires all of its subcontractors to follow the applicable laws and regulations in relation to occupational health and safety and environmental protection at the construction site. According to the statutory requirement, all of the personnel at the construction site, including the Group’s own personnel and the employees of the Group’s subcontractors, are required to attend a construction industry safety training session on occupational health and safety regulations at the construction site and obtain the training certificate before entering the construction site. For further information on the Group’s internal rules and regulations in relation to work quality, occupational health and safety, and environmental protection, please refer to the sub-sections headed “Quality control”, “Occupational health and safety” and “Environmental protection” in this section.

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### Salient terms of subcontracting agreement

The Group generally engages subcontractors on a project-by-project basis instead of entering into long-term subcontracting agreements with them. The Directors consider that such arrangement is in line with the industry practice in Hong Kong. The terms of each subcontracting agreement entered by the Group with its subcontractors may vary, but the salient terms of a typical subcontracting agreement are shown below:

- Scope of work : The scope of services and types of works to be carried out by the subcontractor will be specified in the subcontracting agreement.
- Contract sum : In respect of lump sum fixed price contract, the whole contract sum will be agreed upon at engagement with certain percentage of variation allowance.
- In respect of remeasurement contract, the final contract sum will be determined based on agreed unit rates and measurement of quantities or work done.
- Insurance : The Group or its customers are responsible for all necessary insurances for its subcontractors, such as employees’ compensation insurance, contractors all risk insurance and third party liability insurance.
- Payment terms : For further details regarding the payment terms, please refer to the sub-section headed “Subcontractors — Credit policy” in this section.
- Retention money : The Group generally withholds a certain amount of retention money in order to ensure that the Group’s subcontractors will be responsible for their defective works.
- For further details on the Group’s retention payable turnover days, please refer to the section headed “Financial information — Trade and other payables” in this [REDACTED].

### Credit policy

The Group requires its subcontractors to submit a payment application for a monthly payment or interim payment on a regular basis, depending on the payment terms agreed between the Group and its customers. The payment application generally includes the estimated value of all works properly done and materials consumed, if applicable, by the Group’s subcontractors during the period covered by the payment application. Each payment application will be reviewed and verified by the Group’s project managers to check if the work has been properly done by the subcontractors. The Group will then prepare the payment accordingly.

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During the Track Record Period, all of the Group’s major subcontractors are located in Hong Kong and most of the subcontracting agreements are denominated in Hong Kong dollars. The credit period granted to the Group by its subcontractors ranged from 30 to 60 days and the Group usually settles the payment to its subcontractors by cheques.

### SALES AND MARKETING

During the Track Record Period, the Group secured new businesses mainly through direct invitation for tendering by customers.

### MARKET AND COMPETITION

The Directors believe that the Group competes favourably with its competitors given the various competitive strengths of the Group as detailed in the sub-section headed “Competitive strengths” in this section.

According to the Ipsos Report, the revenue of the podium facade and curtain wall works industry in Hong Kong increased from approximately HK\$4,250.9 million in 2011 to approximately HK\$5,101.1 million in 2015, at a CAGR of approximately 4.7%. The growth was attributed to the increasing number of building projects and the rising project fee of podium facade works and curtain wall works in Hong Kong. The revenue of the podium facade and curtain wall works industry in Hong Kong is expected to continue its rising trend from approximately HK\$5,254.1 million in 2016 to approximately HK\$6,265.0 million in 2020, at a CAGR of approximately 4.5%. Such growth is mainly driven by the increase of land supply for the public and private residential buildings under the development plan for North East New Territories New Development Areas and conversion of government properties into commercial use. The continuous development of the New Territories is likely to bring business opportunities to the podium facade and curtain wall works industry in Hong Kong.

The curtain wall works industry in Hong Kong is considered mature and consolidated, which has approximately 20 major market players and is dominated by the top five of them. The podium facade works industry in Hong Kong is smaller than the curtain wall works industry with approximately 20 major market players and is dominated by the top five of them. In terms of the revenue of the podium facade works industry in Hong Kong in 2015, the Group ranked second with a market share of approximately 18.0%. For further information regarding the competitive landscape of the industry in which the Group operates, please refer to the section headed “Industry overview” in this [REDACTED].

### HEDGING

During the Track Record Period and up to the Latest Practicable Date, the Group did not engage in any hedging activity.

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### RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, the Group did not engage in any research and development activity nor incurred any research and development expenses.

### QUALITY CONTROL

G & M Engineering, one of the Group’s operating subsidiaries, holds the following quality management certification:

<b>Certification</b>	<b>Original Certification Date</b>	<b>Expiry Date</b>
ISO 9001:2008	28 April 1999	14 September 2018

The business of the Group is operated under a set of procedures that complies with the ISO 9001:2008 quality standard. Each project of the Group has a project management team comprising, amongst others, an executive Director and a project manager who are responsible for the overall quality assurance of the project.

For the Group’s quality control measures on its subcontractors, please refer to the sub-section headed “Subcontractors — Control on subcontractors” in this section.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Group has appointed an independent internal control adviser to perform a detailed assessment of the Group’s internal control system including the areas of financial, operation, compliance and risk management with an aim to, amongst other matters, improve the Group’s internal control system including its risk management and corporate governance.

The internal control adviser began its first round review on the Group’s internal control system in November 2015 and issued a report concerning the internal control system of the Group in February 2016. As at the Latest Practicable Date, the Group has adopted the internal control measures and rectified the weakness in the internal control system as recommended by the internal control adviser. Major internal control measures and policies adopted by the Group are as follows:

- (i) the Group has established the policy and procedure for annual budget costs. The annual budget plan will be prepared by the account clerk and reviewed by account manager in every October. In addition, the variance analysis will be prepared and reviewed semi-annually;
- (ii) the Group has implemented cash flow forecast process in order to monitor its cashflow properly. The account clerk is responsible for preparing the monthly cash flow forecast report and the report will be reviewed by the responsible Director;

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- (iii) the Group has established various policies and procedures to project management, subcontracting, supplier, inventory management and finance and accounting. Some of the policies and procedures have been circulated to relevant staff and will be reviewed and updated by the Group’s management;
- (iv) the Group has adopted the policy and procedure to the budget of every project. The contract manager is responsible for preparing the project cash flow forecast report and the report will be reviewed and approved by the responsible Director; and
- (v) the Group has adopted preventive measures to ensure its tendering process is in compliance with the Competition Ordinance, including not colluding with other market participants on any parameter of competition such as price and output. The Group’s staff members are prohibited to enter into any kind of arrangements or agreements with the Group’s competitors in the market that will cause price fixing, output restriction, market sharing or the rigging of potential bids or to conduct any acts which aims to prevent, restrict or distort competition in Hong Kong. The Directors confirm that the Group will regularly seek legal advice on whether the Group’s arrangements comply with the Competition Ordinance.

After reviewing the first round report and discussing with the internal control adviser, save and except for the aforesaid weaknesses, the Directors understood from the internal control adviser that based on the work performed by them, there were not any other findings of material deficiencies in the Group’s internal control system. In November 2016, the internal control adviser performed a follow-up review by focusing on the remedial actions undertaken by the management of the Group on the control deficiencies identified in the first round review. Based on the result of the follow-up review, the Directors confirmed that the Group had adopted all of the internal measures and policies suggested by the internal control adviser and did not have any significant deficiencies in its internal control system as at the Latest Practicable Date.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

The Group has established in-house ESG policies to monitor its environmental and social sustainability. Such policies are summarised as below:

### Environmental protection

- 1. Reducing emission, resources usage and environmental impact
  - The Group’s business operation does not directly produce greenhouse gas. Besides, the Group monitors fuel consumption/ mileage usage in the motor vehicles of the Group.
  - The Group’s business operation does not produce hazardous waste.
  - The Group’s staff is responsible for switching off unused lighting in his/her respective section of office.
  - The Group collects office electricity consumption data for monthly reporting.

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### Workplace quality

1. Working conditions
  - Every employee in the Group has an employee handbook which states the employment policy.
  - The Group has periodic staff performance assessments to evaluate staff performance for salary adjustment and promotion and shares its financial rewards with employees by way of annual discretionary bonus.
  - The Group promotes a fair workplace and protects potential and existing employees from being at a disadvantage or excluded on the basis of characteristics such as gender, age, race, marital status and religious belief or other characteristics.
2. Health and safety
  - The Group has tailor made project safety plans for each project.
  - All workman and supervisory staff are required to attend various vocational training such as safety induction course, toolbox training and manual lifting training, etc.
  - Safety supervisor carries out daily site safety inspection and prepares inspection reports.
3. Development and training
  - The Group provides various vocational training programmes to staff in order to provide them with opportunities to advance their career. In addition, it provides sponsorships to staff to attend external job-related training courses.
4. Labour standards
  - The Group prohibits the employment of children or forced labour.

### Operating practices

1. Supply chain management
  - The Group sets up a supply chain sustainability working group to share best practices and to develop sustainability policies and guidelines.
  - The Group follows its ISO 9001 procurement procedure to engage suppliers.
2. Product responsibility
  - The Group offers warranty, generally ranging from 10 years to 15 years, for its projects according to the contract specification requirement on project basis.
3. Anti-corruption
  - The Group requires staff to declare any conflicts of interest and encourages reporting of any suspected misconduct through a whistle-blowing mechanism. Besides, it takes appropriate disciplinary actions or reports to the regulators in the event of contravention by any subcontractors or suppliers.
4. Community investment
  - The Group sponsors its staff for participating in charity activities.

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### OCCUPATIONAL HEALTH AND SAFETY CONTROL

#### Occupational health and safety control measures

The Group has established procedures to provide its workers with a safe and healthy working environment by specifying various safety control measures and in-house rules in its safety plan which include, amongst other things, safety team organisation chart, safety and health training requirements, safety rules and regulations for in-house and for construction site, requirements for preparation of method statement, statutory obligations, safety inspection and reporting policy, job-hazard and risk assessment, accident/incident investigation plan, emergency preparedness, introduction of personal protective equipment as well as safety measures in relation to various potential dangers at work site.

The Group normally conducts onsite inspections at least once a week. In addition, the Group provides its employees with, and subsidises its employees to attend, occupational safety education and training organised by it and by external parties to enhance their awareness of work safety.

#### Accidents during the Track Record Period and up to the Latest Practicable Date

Although the Group has implemented a safety plan to mitigate accident risks, the occurrence of accidents at construction sites cannot be completely eliminated due to the work nature in the construction industry. For the year ended 31 December 2014, 31 December 2015 and 31 December 2016, and the subsequent period up to the Latest Practicable Date, the Group recorded three, six, eight and nil accident(s), respectively, which gave rise or may give rise to potential employees' compensation and personal injury claims.

The following table sets forth the nature of the 17 accidents that occurred during the Track Record Period and up to the Latest Practicable Date:

<b>Nature of accident</b>	<b>Number of accidents</b>
Injury whilst lifting or carrying	5
Slip, trip or fall on same level	4
Fall from height	4
Striking against fixed or stationary object	3
Eye injury by small metal fragments	1
	<u>17</u>

Injured workers may claim against the Group pursuant to the Employees' Compensation Ordinance and/or common law. With respect to injuries where the injured workers had only made an employees' compensation claim, the compensation paid to the injured workers under the Employees' Compensation Ordinance would not exempt the liabilities of the Group under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury under common law is three years from the date of the relevant accident.



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As such, it is still possible for the injured worker to instigate claims against the Group under common law, provided that the limitation period has not yet expired as at the Latest Practicable Date. On the other hand, the compensation paid to such injured worker, if any, would be reduced and off-set by the compensation already paid to the worker under the Employees’ Compensation Ordinance.

Save as disclosed above, the Group did not experience any significant incidents or accidents in relation to workers’ safety during the Track Record Period and up to the Latest Practicable Date. The Directors confirm that the damages and liabilities arising from these accidents that happened during the Track Record Period and up to the Latest Practicable Date are covered by employee compensation insurance taken out for the relevant construction projects. For further details on outstanding litigation and potential claims relating to employees’ compensation claims under the Employees’ Compensation Ordinance or personal injury claims under common law, please refer to the sub-section headed “Litigation and potential claims” in this section.

### Analysis on accident rate

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

	<b>Industry average in Hong Kong (Note 1)</b>	<b>The Group (Note 2)</b>
<b>2014</b>		
Accident rate per 1,000 workers	41.9	2.4
Fatality rate per 1,000 workers	0.242	Nil
<b>2015</b>		
Accident rate per 1,000 workers	39.1	3.2
Fatality rate per 1,000 workers	0.200	Nil
<b>2016</b>		
Accident rate per 1,000 workers	N/A (Note 3)	3.6
Fatality rate per 1,000 workers	N/A (Note 3)	Nil

*Notes:*

1. The figures are based on the Occupational Safety and Health Statistics Bulletin No. 16 (August 2016) published by Occupational Safety and Health Branch, Labour Department, in which the accident rate is calculated as the number of industrial accidents during the year divided by the employment size which are based on the Quarterly Report of Employment and Vacancies Statistics published by the Census and Statistics Department.

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2. The Group’s accident rate is calculated as the number of industrial accidents during the year divided by the daily average of the construction site workers (consisted of the employees of the Group’s subcontractors only) in the Group’s construction sites during the year and multiplied by 1,000.
3. The relevant data has not been published as at the Latest Practicable Date.

The following table sets forth the Group’s lost time injuries frequency rate (“**LTIFR**”) during the Track Record Period:

	<b>LTIFR</b> ( <i>Note</i> )
For the year ended 31 December 2014	297
For the year ended 31 December 2015	397
For the year ended 31 December 2016	445

*Notes:*

- (1) LTIFR is a frequency rate that shows the amount of lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by using the total labour hours worked per year, divided by the number of reportable cases and multiplied by 1,000,000, assuming that the working hour of each worker is 8 hours per day.
- (2) The Directors confirm that there is no public information in relation to the average LTIFRs of the construction industry in Hong Kong.

## ENVIRONMENTAL COMPLIANCE

### Environmental compliance measures

The Group’s operations are subject to certain environmental requirements pursuant to laws in Hong Kong, including primarily those in relation to air pollution control, noise control, waste disposal and disposal of waste water. For further details of the regulatory requirements, please refer to the section headed “Regulatory overview — I. The laws and regulations of Hong Kong — Laws and regulations in relation to environmental protection” in this [REDACTED].

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The Group’s in-house rules contain measures and work procedures governing the environmental protection compliance that are required to be followed by the Group’s employees. Such measures and procedures include, amongst others:

<b>Area</b>	<b>Measures</b>
Air pollution control	(i) Dust suppression by use of water (ii) Installation of dust screens as required (iii) Use of low-dust techniques and equipment as required
Noise control	(i) Inspection and maintenance of all equipment before use for compliance of permitted noise level (ii) Works to be undertaken in accordance with the permitted work hours as specified by the customers
Waste disposal	(i) Waste to be segregated into general wastes and construction wastes before transporting to site rubbish collection point designated by the customers

### **Track record in relation to environmental compliance**

During the Track Record Period and up to the Latest Practicable Date, there was no material breach of the Group’s in-house environmental protection rules by the Group’s staff or non-compliance with the applicable laws and regulations relevant to environmental protection.

### **INSURANCE**

During the Track Record Period, the Group secured insurance policies as set out in the following paragraphs. The Directors consider that the existing insurance coverage is adequate and consistent with the industry norm having regard to the Group’s current operations and the prevailing industry practice. The Directors confirm that no claims have been made in respect of any of the Group’s insurance policies during the Track Record Period and up to the Latest Practicable Date.

The Group maintains insurance coverage against, amongst other matters, (i) liability for third party bodily injury and damages to third party property occurring on the Group’s office premises; (ii) employees’ compensation; and (iii) third-party liability in relation to the use of the Group’s vehicles.

The Directors are of the view that the Group’s insurance coverage is adequate and consistent with industry norm.

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### EMPLOYEES

#### Number of employees by function

As at 31 December 2014, 2015, 2016 and the Latest Practicable Date, the Group had a total of 44, 42, 73 and 73 employees, respectively. All of the employees of the Group are stationed in Hong Kong and the PRC. The following table sets forth a breakdown of the number of the Group’s employees by functions:

	As at 31 December			As at the Latest Practicable Date
	2014	2015	2016	Date
<b>Hong Kong</b>				
Management	6	6	7	7
Project management	23	20	23	23
Sales and marketing	1	1	1	1
Administration, accounting and finance	4	5	5	5
Procurement	—	—	2	2
Design	10	10	12	12
<b>Sub-total</b>	44	42	50	50
<b>The PRC</b>				
Administration, accounting and finance	—	—	2	2
Design and shop drawing	—	—	21	21
<b>Sub-total</b>	—	—	23	23
<b>Total</b>	44	42	73	73

#### Relationship with staff

The Directors consider that the Group has maintained a good relationship with its employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in all material aspects in Hong Kong and the PRC.

The Directors confirm that the Group had not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor had the Group experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by employees.

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### **Recruitment policy**

The Group recruits its employees from the open market mainly through placing recruitment advertisements. The Group intends to use its best efforts to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continual basis and will determine whether additional personnel are required to cope with the business development of the Group.

### **Training and remuneration policy**

The Group enters into separate employment contracts with each of its employees. The remuneration package offered to the Group’s employees generally included basic salaries, bonuses and other cash allowances or subsidies. The Group determines the commencing salary of its employees mainly based on each employee’s qualifications, relevant experience, position and seniority. The Group conducts an annual review on salary increase, discretionary bonuses and promotions based on, including but not limited to, the performance of each employee, the overall Hong Kong economy and the profitability of the Group.

The Group sponsors its employees to attend various external training courses. For details, please refer to the sub-section headed “Occupational health and safety control” in this section.

## **PROPERTIES**

### **Owned property**

During the Track Record Period and up to the Latest Practicable Date, the Group did not own any property.

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### Leased properties

The Group currently leased two properties and two car parks in Hong Kong and one property in the PRC, details of which are set out below:

No.	Location	Gross floor area	Term/option	Lesser	Key terms of the tenancy	Use of the property
1	Units 1709-14, 17th Floor Manhattan Centre 8 Kwai Cheong Road Kwai Chung New Territories Hong Kong	6,897 sq. ft.	From 18 April 2016 to 17 April 2019	An Independent Third Party	Monthly rent of HK\$115,100	For general office and operational use
2	Units 1401-2, 14th Floor Manhattan Centre 8 Kwai Cheong Road Kwai Chung New Territories Hong Kong	2,263 sq. ft.	From 21 December 2015 to 20 December 2017	An Independent Third Party	Monthly rent of HK\$38,471	For general office and operational use
3	A carpark lot in Manhattan Centre 8 Kwai Cheong Road Kwai Chung New Territories Hong Kong	N/A	Monthly renewal	An Independent Third Party	Monthly rent of HK\$2,600	Carpark
4	Carpark No. 5, D-5 Lung Tang Court 88-90 Castle Peak Road Tsing Lung Tau Tsuen Wan New Territories Hong Kong	N/A	From 1 July 2016 to 30 June 2018	An Independent Third Party	Monthly rent of HK\$2,500	Carpark
5	Room 31A-B, Block A Zhenye Building 2014 Baoan Nan Road Luohu District Shenzhen PRC	194.26 sq. m.	From 1 January 2017 to 31 December 2019	An Independent Third Party	Monthly rent of RMB15,735, RMB16,207 and RMB16,693 for 2017, 2018 and 2019, respectively	For general office and operational use

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During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any difficulty in renewing the leases.

### INTELLECTUAL PROPERTY RIGHTS

#### Trademarks

As at the Latest Practicable Date, the Group had registered one trademark in Hong Kong and the Group was applying for one trademark in Hong Kong. For further details, please refer to section headed “Statutory and general information — B. Further information about the business of the Group — 2. Intellectual property rights of the Group — (a) Trademarks” in Appendix IV to this [REDACTED].

#### Domain name

As at the Latest Practicable Date, the Group had registered one domain name, being [www.gm-eng.com.hk](http://www.gm-eng.com.hk) in Hong Kong. For further details, please refer to the section headed “Statutory and general information — B. Further information about the business of the Group — 2. Intellectual property rights of the Group — (b) Domain name” in Appendix IV to this [REDACTED].

### COMPLIANCE

The Directors confirm that the Group has complied with all applicable laws and regulations in all material aspects in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

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### LITIGATION AND POTENTIAL CLAIMS

As at the Latest Practicable Date, the Group was involved in a number of civil claims, litigations and pending or threatened claims and the details are as below:

**(1) Outstanding civil litigations as at the Latest Practicable Date**

No.	Nature of incident/ claim	Date/ period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/ estimated quantum of damages claimed	Status
1	A claim for employee’s compensation by the plaintiff in 2014, it was alleged that the plaintiff suffered from injuries to his head, both upper limbs and lower back when he was working at a construction site in Tai Po, Hong Kong.	28 May 2012	Employee of the subcontractor of the Group	(a) G & M Engineering as the main contractor  (b) Subcontractor of the Group	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.
2	Claims for employee’s compensation and damages for personal injuries sustained by the plaintiff by the spouse of the plaintiff for herself and on behalf of other members of the family of the plaintiff in 2014 and 2015 respectively, it was alleged that the plaintiff fell from a height of approximately 1.7 metres and suffered serious injuries to his left buttock, perianal area and teeth when he was working on scaffolding at the construction site in Tuen Mun, Hong Kong.	1 September 2012	Employee of the Group	(a) G & M Engineering as the subcontractor  (b) Main contractor of the project	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.



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No.	Nature of incident/ claim	Date/ period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/ estimated quantum of damages claimed	Status
3	A claim for employee’s compensation by the plaintiff in 2014, it was alleged that the plaintiff suffered from finger cut when he was working at the construction site in Tuen Mun, Hong Kong.	24 June 2013	Employee of the Group	(a) G & M Engineering as the subcontractor  (b) Main contractor of the project	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.
4	A claim for employee’s compensation by the plaintiff in 2015, it was alleged that the plaintiff suffered from right elbow injury when he was working at the construction site in Yuen Long, Hong Kong.	11 October 2014	Employee of the subcontractor of the Group	(a) G & M Engineering as the subcontractor  (b) Main contractor of the project  (c) Subcontractor of the Group	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.

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No.	Nature of incident/ claim	Date/ period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/ estimated quantum of damages claimed	Status
5	A claim for employee’s compensation by the plaintiff in 2015, it was alleged that the plaintiff suffered from left chest wall injury when she was working at a construction site in Yuen Long, Hong Kong.	19 January 2015	Employee of the subcontractor of the Group	(a) G & M Engineering as the subcontractor  (b) Main contractor of the project  (c) Subcontractor of the Group	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.
6	A claim for employee’s compensation by the plaintiff in 2016, it was alleged that the plaintiff suffered from right foot injury of right leg, knee and ankle when he was working at a construction site in Yuen Long, Hong Kong.	21 July 2016	Employee of the Group	(a) G & M Engineering as the subcontractor  (b) Main contractor of the project	Damages to be assessed by court.  Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is liable.	As at the Latest Practicable Date, the Directors confirm that the case is being handled by solicitors nominated by the insurance company.

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No provision was made for the above cases as the Directors believe that the amount of claims is within the amount of insurance coverage which was taken out either by the Group or the main contractor and the Directors consider that the amount of damages payable (if any) will be covered by insurance in full.

No.	Nature of incident/ claim	Date/ period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/ estimated quantum of damages claimed	Status
7	Claims of alleged outstanding fees under certain supply contracts and settlement agreement by a glass panel supplier who had previously supplied glass panels to G & M Engineering ( <i>Note 1</i> )	From February 2005 to January 2016	A glass panel supplier in Hong Kong	G & M Engineering	Approximately HK\$920,000 plus interests and costs ( <i>Note 2</i> )	As at the Latest Practicable Date, the Group and the plaintiff were in negotiation on the arrangement of conducting a mediation for the case.

*Notes:*

1. G & M Engineering and the glass panel supplier entered into certain supply contracts pursuant to which the glass panel supplier agreed to supply laminated glass which would not delaminate and provide the manufacturer’s warranty for the laminated glass. However, some of the laminated glass delaminated. After negotiation and entering into a settlement agreement, the glass panel supplier still failed to replace the delaminated glass and provide the manufacturer’s warranty as required by G & M Engineering. As such, G & M Engineering considered that they were entitled to (i) withhold certain payment until the glass panel supplier performed its obligations under the settlement agreement; and (ii) set off certain amount payable to the glass panel supplier by the extra costs incurred for the replacement of delaminated glass. The glass panel supplier disagreed and brought the claim against G & M Engineering in 2016. G & M Engineering then lodged a defence and counterclaim, with the amount to be assessed by the court. The case was still ongoing as at the Latest Practicable Date. The Directors confirm that there was no material adverse impact on the operation and financial performance of the Group. Further, taking into account all the circumstances of the proceedings, the nature of the plaintiff’s claim and G & M Engineering’s defence and counterclaim; and the fact that the amount claimed has already been included in G & M Engineering’s accounts as trade payable and advances to the plaintiff, as advised by the Company’s legal advisers as to Hong Kong law, the Directors consider that there will not be any material adverse impact on the operation and financial performance of the Group.
  
2. In connection with this claim, G & M Engineering has already included an aggregate sum of approximately HK\$1,400,000 as trade payable and approximately HK\$480,000 as advances to the plaintiff in its accounts since the year ended 31 December 2009. As such, the Directors consider that no provision has to be made for this case.

**(2) Potential employees’ compensation claims and personal injuries claims as at the Latest Practicable Date**

All injured persons may commence their claims under the Employees’ Compensation Ordinance and/or their personal injury claims under common law within the limitation period of two years (for employees’ compensation claims) or three years (for personal injury claims) from the date of the relevant accidents.

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As at the Latest Practicable Date, out of the 17 accidents that happened during the Track Record Period and up to the Latest Practicable Date, there were (i) three accidents in respect of which employees’ compensation claims with an aggregate settlement amount of approximately HK\$17,000 were settled; (ii) seven accidents in respect of which, to the best knowledge of the Directors, the employees’ compensation claims and/or common law claims were either fully settled by the respective contractor or insurance company, or withdrawn by the employee; (iii) three accidents in respect of which summons had been received and legal proceedings for employees’ compensation claims have commenced and were outstanding; and (iv) four accidents in respect of which the injured persons have not yet filed any claims or commenced legal proceedings against the Group or the injured persons are still receiving periodical payments.

Regarding the abovementioned three accidents in respect of which summons had been received and legal proceedings for employees’ compensation claims have commenced and were outstanding, the limitation period of the corresponding potential personal injury claim against the Group had not expired. Regarding the abovementioned four accidents in respect of which the injured persons have not yet filed any claims or commenced legal proceedings against the Group or the injured persons are still receiving periodical payments, as at the Latest Practicable Date, the limitation period of the respective potential employees’ compensation claim and respective potential personal injury claim had not expired.

As such, as at the Latest Practicable Date, the Group had a total of four potential employees’ compensation claims and six personal injury claims.

Since no civil action has commenced, the claims, when filed, will be handled by solicitors appointed by the insurers, the Group is not in a position to assess the likely quantum of such potential claims. For further details of the abovementioned 17 accidents, please refer to the sub-section headed “Accidents during the Track Record Period and up to the Latest Practicable Date” in this section.

In any event, the Group has insurance coverage for its liabilities of all these accidents and as at the Latest Practicable Date, notices of the accidents had been given to the insurers. It is expected that the injured persons would be fully covered by the mandatory insurance held either by the Group or the relevant main contractor.

Save as disclosed in this [REDACTED], no other claim or litigation of material importance was known to the Directors to be pending or threatened against any member of the Group during the Track Record Period and as at the Latest Practicable Date.

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### **Indemnity given by the Controlling Shareholders**

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group against all losses and liabilities arising from the above legal proceedings. Please refer to the section headed “Statutory and general information — E. Other information — 1. Tax and other indemnities” in Appendix IV to this [REDACTED] for further details.

### **No other litigation**

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.