
FINANCIAL INFORMATION

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

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

OVERVIEW

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

For each of the 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. Of such amount, approximately 90.9%, 96.0% and 97.5% was attributable to the Group’s design and build projects, respectively, while the remaining approximately 9.1%, 4.0% and 2.5% was attributable to the Group’s repair and maintenance services.

The Group recorded gross profit of approximately HK\$50.4 million, HK\$71.1 million and HK\$90.5 million for each of the three years ended 31 December 2016, respectively. The Group recorded profit for the year of approximately HK\$31.3 million, HK\$46.5 million and HK\$50.1 million for each of the three years ended 31 December 2016, respectively. For further details, please refer to the sub-sections headed “Principal components of results of operations” and “Comparison of results of operations” in this section.

BASIS OF PRESENTATION

Prior to the [REDACTED], the Group had undergone the Reorganisation after which the Company has become the holding company of the Group since 12 May 2017. Please refer to the section headed “History, Reorganisation and corporate structure — Reorganisation” in this [REDACTED] for details.

FINANCIAL INFORMATION

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

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

KEY FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATION AND FINANCIAL CONDITION

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

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

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

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

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

The design and build projects undertaken by the Group are generally awarded by its customers after they accept the tender submitted or quotation provided by the Group, where the Group has to estimate the time and costs involved in a design and build project in order to determine the fee for the tender or quotation. The Group generally determines the price of its projects on an estimated project

FINANCIAL INFORMATION

costs plus a mark-up margin. The Group’s pricing on its projects is evaluated on a project-by-project basis depending on several factors, including but not limited to, (i) the nature or type of the design and projects; (ii) the costs budget; (iii) the target completion date; (iv) the Group’s projects on hand; (v) the availability of the Group’s resources; and (vi) scale of the project.

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

Supply and cost of materials and processing services

The Group’s material and processing charges amounted to approximately HK\$36.3 million, HK\$60.2 million and HK\$73.0 million, respectively, representing approximately 36.0%, 40.8% and 39.8% of the Group’s total cost of revenue during each of the three years ended 31 December 2016, respectively.

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

Performance and availability of subcontractors

As the Group does not employ any direct labour to carry out the installation works for its design and build projects, the Group subcontracts the installation works to external subcontractors. The Group’s subcontracting charges amounted to approximately HK\$35.8 million, HK\$57.3 million and HK\$72.9 million, respectively, representing approximately 35.5%, 38.8% and 39.7% of the Group’s total cost of revenue for the corresponding year, respectively.

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

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

In the application of the Group’s accounting policies, the Directors are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Below is a summary of certain critical accounting judgements and key sources of estimation uncertainty that the Directors believe are important to the preparation of the Group’s financial results and positions. The Group also has other accounting policies that the Directors consider to be significant, the details of which are set forth in note 3 of the Accountant’s Report set out in Appendix I to this [REDACTED].

Critical judgments in applying accounting policies

(i) *Held-to-maturity investments*

The Group classifies financial assets as held-to-maturity investments when it has a positive intention and ability to hold the investment to maturity. Directors exercise judgment based on the Group’s treasury objective and financial risk management policy to determine whether the financial assets are to be classified as held-to-maturity.

(ii) *Impairment of available-for-sale investments*

The Directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

FINANCIAL INFORMATION

Key sources of estimation uncertainty

(i) *Percentage of completion of construction contract*

Construction contract revenue is recognised according to the percentage of completion of individual construction contract which requires the estimation of contract costs and gross profit margin of each contract. Contract costs and gross profit margin of individual contract is determined based on budget of the contract which was prepared by the management. In order to ensure that the total estimated contract costs are accurate and up-to-date such that gross profit margin can be estimated reliably, management reviews the costs incurred to date and costs to completion regularly, in particular in the case of costs over-runs and revise the estimated contract costs where necessary. Recognition of variations and claims also requires significant estimation and judgment by the management. Notwithstanding that, the management regularly reviews and revises the estimates of both contract costs and gross profit margin for the construction contracts when those construction contracts progress, the actual contract costs and gross profit margin may be higher or lower than the estimations and that will affect the revenue and gross profit recognised in the financial statements.

(ii) *Estimation of total budgeted costs and cost to completion for construction contracts*

Total budgeted costs for construction contracts comprise (i) direct material costs and project staff costs; (ii) costs of subcontracting; and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) costs incurred up-to-date; (ii) current offers from sub-contractors and suppliers; (iii) recent offers agreed with sub-contractors and suppliers; and (iv) professional estimation on material costs, project staff costs and other costs.

(iii) *Warranty provision*

The Group provides warranty to customers for a period up to 15 years for the contracts completed by the Group. The Group undertakes to rectify the defects within the warranty period. The warranty provision has been recognised for expected costs to rectify the defects based on past experience of warranty claims by customers. Management will review the sufficiency of provision and make adjustments, if appropriate, at the end of each reporting period.

(iv) *Impairment of receivables*

The impairment policy for bad and doubtful debts of the Group is based on management’s evaluation of collectability and ageing analysis of receivables (including amounts due from a director) and on the specific circumstances for each account. Judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer or debtor. If the financial condition of the customers or debtors was to deteriorate resulting in an impairment of their ability to make payments, additional provision will be required.

FINANCIAL INFORMATION

(v) *Estimation of current and deferred tax*

The Group is subjected to Hong Kong taxation. Significant judgement is required in determining the amount of the provision for taxation. The Group recognised income tax based on management’s best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expenses in the period in which the tax calculations are finalised with the tax authority.

(vi) *Fair value measurement*

Certain of the Group’s financial assets require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group’s financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are.

For further details, please refer to note 5 of the Accountant’s Report set out in Appendix I to this [REDACTED].

SUMMARY OF RESULTS OF OPERATIONS

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

	Year ended 31 December		
	2014	2015	2016
	HK\$’000	HK\$’000	HK\$’000
Revenue	151,304	218,820	273,912
Cost of revenue	<u>(100,911)</u>	<u>(147,753)</u>	<u>(183,389)</u>
Gross profit	50,393	71,067	90,523
Other income, gains and losses	544	588	17
Administrative and other operating expenses	(13,274)	(14,141)	(20,641)
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Finance costs	<u>(324)</u>	<u>(466)</u>	<u>(559)</u>
Profit before income tax	37,339	55,863	61,901
Income tax expense	<u>(6,074)</u>	<u>(9,371)</u>	<u>(11,824)</u>
Profit for the year	<u>31,265</u>	<u>46,492</u>	<u>50,077</u>

FINANCIAL INFORMATION

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
- Change in fair value of available-for-sale investments	(74)	—	—
- Reclassification on impairment of available-for-sale investments	66	—	—
- Release upon disposal of available-for-sale investments	(133)	(37)	—
- Exchange difference arising from translation of foreign operation	<u>—</u>	<u>—</u>	<u>(72)</u>
	<u>(141)</u>	<u>(37)</u>	<u>(72)</u>
Total comprehensive income for the year	<u>31,124</u>	<u>46,455</u>	<u>50,005</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	30,612	46,131	49,980
Non-controlling interests	<u>512</u>	<u>324</u>	<u>25</u>
Total comprehensive income for the year	<u>31,124</u>	<u>46,455</u>	<u>50,005</u>

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

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

	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>
Sub-total	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>
Total	<u>151,304</u>	<u>100.0</u>	<u>218,820</u>	<u>100.0</u>	<u>273,912</u>	<u>100.0</u>

Cost of revenue

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

	Year ended 31 December					
	2014		2015		2016	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Material and processing charges	36,314	36.0	60,249	40.8	73,036	39.8
Subcontracting charges	35,791	35.5	57,337	38.8	72,885	39.7
Project staff costs	13,648	13.5	16,137	10.9	24,266	13.2
Others	<u>15,158</u>	<u>15.0</u>	<u>14,030</u>	<u>9.5</u>	<u>13,202</u>	<u>7.3</u>
Total	<u>100,911</u>	<u>100.0</u>	<u>147,753</u>	<u>100.0</u>	<u>183,389</u>	<u>100.0</u>

FINANCIAL INFORMATION

(i) *Material and processing charges*

Material and processing charges represent the charges paid and payable to the Group’s suppliers for the purchase of building and construction materials being installed/utilised in the Group’s design and build projects and relevant processing charges. For each of the three years ended 31 December 2016, material and processing charges of the Group amounted to approximately HK\$36.3 million, HK\$60.2 million and HK\$73.0 million, respectively, representing approximately 36.0%, 40.8% and 39.8% of the Group’s total cost of revenue for the corresponding year, respectively.

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

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Aluminium	15,554	42.9	26,711	44.3	8,841	12.1
Metal	9,385	25.8	17,699	29.4	16,546	22.7
Glass	5,973	16.4	6,557	10.9	36,105	49.4
Silicone sealant	1,181	3.3	1,977	3.3	8,755	12.0
Others	4,221	11.6	7,305	12.1	2,789	3.8
	<u>36,314</u>	<u>100.0</u>	<u>60,249</u>	<u>100.0</u>	<u>73,036</u>	<u>100.0</u>

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

Hypothetical fluctuations in material and processing charges

	+3%	+4.5%	-3%	-4.5%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Change in profit before tax for:				
the year ended 31 December 2014	-1,089	-1,634	+1,089	+1,634
the year ended 31 December 2015	-1,807	-2,711	+1,807	+2,711
the year ended 31 December 2016	-2,191	-3,287	+2,191	+3,287
Change in profit after tax (Note) for:				
the year ended 31 December 2014	-909	-1,364	+909	+1,364
the year ended 31 December 2015	-1,509	-2,264	+1,509	+2,264
the year ended 31 December 2016	-1,829	-2,745	+1,829	+2,745

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

FINANCIAL INFORMATION

(ii) Subcontracting charges

Subcontracting charges represent the charges paid and payable to the Group’s subcontractors who provide installation services at site for its design and build projects and repair and maintenance works. For each of the three years ended 31 December 2016, subcontracting charges of the Group amounted to approximately HK\$35.8 million, HK\$57.3 million and HK\$72.9 million, respectively, representing approximately 35.5%, 38.8% and 39.7% of the Group’s total cost of revenue for the corresponding year, respectively.

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

Hypothetical fluctuations in subcontracting

charges	+5%	+16%	-5%	-16%
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Change in profit before tax for:				
the year ended 31 December 2014	-1,790	-5,727	+1,790	+5,727
the year ended 31 December 2015	-2,867	-9,174	+2,867	+9,174
the year ended 31 December 2016	-3,644	-11,662	+3,644	+11,662
Change in profit after tax (Note) for:				
the year ended 31 December 2014	-1,495	-4,782	+1,495	+4,782
the year ended 31 December 2015	-2,394	-7,660	+2,394	+7,660
the year ended 31 December 2016	-3,043	-9,738	+3,043	+9,738

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

(iii) Project staff costs

Project staff costs represent the compensation and benefits provided to the staff of the Group’s project management team and design team. For each of the three years ended 31 December 2016, project staff costs of the Group amounted to approximately HK\$13.6 million, HK\$16.1 million and HK\$24.3 million, respectively, representing approximately 13.5%, 10.9% and 13.2% of the Group’s total cost of revenue for the corresponding year, respectively.

FINANCIAL INFORMATION

(iv) *Others*

Others mainly represent design fee, scaffolding and platform, insurance, inspection and testing fee and transportation costs etc. For each of the three years ended 31 December 2016, other cost of revenue of the Group amounted to approximately HK\$15.2 million, HK\$14.0 million and HK\$13.2 million, respectively, representing approximately 15.0%, 9.5% and 7.3% of the Group’s total cost of revenue for the corresponding year, respectively.

Gross profit

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

	Year ended 31 December					
	2014		2015		2016	
	<i>Gross profit margin</i>		<i>Gross profit margin</i>		<i>Gross profit margin</i>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Design and build projects						
- Podium facade and related works	42,607	35.1	62,931	32.1	82,015	33.8
- Curtain wall works	<u>4,563</u>	28.1	<u>5,035</u>	36.0	<u>6,097</u>	24.6
Sub-total/overall	47,170	34.3	67,966	32.4	88,112	33.0
Repair and maintenance services	<u>3,223</u>	23.5	<u>3,101</u>	35.1	<u>2,411</u>	35.2
Total/overall	<u><u>50,393</u></u>	<u><u>33.3</u></u>	<u><u>71,067</u></u>	<u><u>32.5</u></u>	<u><u>90,523</u></u>	<u><u>33.0</u></u>

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

	Year ended 31 December					
	2014		2015		2016	
	<i>Gross profit margin</i>		<i>Gross profit margin</i>		<i>Gross profit margin</i>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Private sector	31,329	27.4	67,612	31.9	87,184	32.2
Public sector	<u>19,064</u>	51.7	<u>3,455</u>	49.7	<u>3,339</u>	97.8
Total	<u><u>50,393</u></u>	<u><u>33.3</u></u>	<u><u>71,067</u></u>	<u><u>32.5</u></u>	<u><u>90,523</u></u>	<u><u>33.0</u></u>

FINANCIAL INFORMATION

Other income, gains and losses

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

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	111	74	7
Dividend income from investments	63	69	—
Interest income from held-to-maturity investments	237	470	—
Gain/(Loss) on disposal of investments	180	(63)	—
Impairment of available-for-sale investments	(66)	—	—
Gain/(Loss) on disposal of property, plant and equipment	—	20	(16)
Others	19	18	26
	<u>19</u>	<u>18</u>	<u>26</u>
Total	<u><u>544</u></u>	<u><u>588</u></u>	<u><u>17</u></u>

For further information regarding the Group’s held-to-maturity and available-for-sale investments, please refer to the sub-section headed “Held-to-maturity and available-for-sale investments” in this section.

Administrative and other operating expenses

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

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff salaries and benefits	7,143	6,961	6,886
Travel and entertainment expenses	1,602	1,406	1,417
Directors’ emoluments	1,274	1,254	4,839
Office rental and utilities	863	1,030	2,241
Depreciation on property, plant and equipment	519	535	1,563
Motor vehicles expenses	502	513	390
Bank charges	291	398	447
Insurance expenses	244	258	304
Repairs and maintenance expenses	115	159	381
Legal and professional fees	60	281	1,014
Auditor’s remuneration	58	312	300
Write off of property, plant and equipment	11	—	6
Others	592	1,034	853
	<u>592</u>	<u>1,034</u>	<u>853</u>
Total	<u><u>13,274</u></u>	<u><u>14,141</u></u>	<u><u>20,641</u></u>

FINANCIAL INFORMATION

Finance costs

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

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	307	452	551
Interest element of finance lease payments	<u>17</u>	<u>14</u>	<u>8</u>
Total	<u><u>324</u></u>	<u><u>466</u></u>	<u><u>559</u></u>

Income tax expense

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

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>37,339</u>	<u>55,863</u>	<u>61,901</u>
Tax calculated at Hong Kong Profits Tax rate of 16.5%	6,161	9,217	10,214
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	—	(53)
Tax effect of revenue not taxable for tax purposes	(11)	(12)	(1)
Tax effect of expenses not deductible for tax purposes	13	218	1,348
Tax effect of temporary differences not recognised	(29)	(12)	188
Under-provision in respect of prior years	—	—	128
Others	<u>(60)</u>	<u>(40)</u>	<u>—</u>
Income tax expense	<u><u>6,074</u></u>	<u><u>9,371</u></u>	<u><u>11,824</u></u>

FINANCIAL INFORMATION

For each of the three years ended 31 December 2016, the Group recorded income tax expense of approximately HK\$6.1 million, HK\$9.4 million and HK\$11.8 million, respectively. The following table sets forth the Group’s effective tax rate during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before income tax	37,339	55,863	61,901
Income tax expense	6,074	9,371	11,824
Effective tax rate	16.3%	16.8%	19.1%

COMPARISON OF RESULTS OF OPERATIONS

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

Revenue

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

Such increase was mainly due to the following:

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

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

FINANCIAL INFORMATION

Costs of revenue

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

- (i) The material and processing charges increased from approximately HK\$36.3 million for the year ended 31 December 2014 to approximately HK\$60.2 million for the year ended 31 December 2015, representing an increase of approximately 65.9%. Such increase was mainly due to more projects of the Group were in the procurement of materials stage during the year ended 31 December 2015 as compared to the year ended 31 December 2014, such as two projects in relation to the supply and installation works of curtain wall, glass wall for podium and footbridge in Yuen Long where a majority of materials required were purchased during the year.
- (ii) The subcontracting charges increased from approximately HK\$35.8 million for the year ended 31 December 2014 to approximately HK\$57.3 million for the year ended 31 December 2015, representing an increase of approximately 60.1%. Such increase was mainly due to (a) more projects of the Group proceeded to the installation or other labour-intensive stages during the year which resulted in more subcontracting works engaged during the year; and (b) the higher average fees charged by the subcontractors.
- (iii) The project staff costs increased from approximately HK\$13.6 million for the year ended 31 December 2014 to approximately HK\$16.1 million for the year ended 31 December 2015, representing an increase of approximately 18.2%. The relatively lower-than-proportion increase in the Group’s project staff costs was attributable to the relatively stable number of project management staff while the increase mainly represented salary increment and increased number of projects undertaken by the Group during the year.

Gross profit and gross profit margin

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

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

FINANCIAL INFORMATION

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

Other income, gains and losses

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

Administrative and other operating expenses

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

Finance costs

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

Income tax expense

Income tax expense of the Group increased by approximately HK\$3.3 million or 54.3% from approximately HK\$6.1 million for the year ended 31 December 2014 to approximately HK\$9.4 million for the year ended 31 December 2015. Such increase was primarily due to the increase in the Group’s profit before tax from approximately HK\$37.3 million for the year ended 31 December 2014 to approximately HK\$55.9 million for the year ended 31 December 2015, representing an increase of approximately 49.6%. For the years ended 31 December 2014 and 2015, the effective tax rate of the Group amounted to approximately 16.3% and 16.8%, respectively, which is similar to the Hong Kong Profits Tax rate of 16.5%.

FINANCIAL INFORMATION

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

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

Total comprehensive income for the year attributable to the owners of the Company increased by approximately HK\$15.5 million or 50.7% from approximately HK\$30.6 million for the year ended 31 December 2014 to approximately HK\$46.1 million for the year ended 31 December 2015.

Year ended 31 December 2016 compared with the year ended 31 December 2015

Revenue

Revenue of the Group increased by approximately HK\$55.1 million or 25.2% from approximately HK\$218.8 million for the year ended 31 December 2015 to approximately HK\$273.9 million for the year ended 31 December 2016. Such increase was mainly attributable to the Group’s efforts in pursuing projects of relatively larger scales and higher income. The Group recorded an increase in the number of design and build projects of relatively larger scale and higher revenue recognised during the year ended 31 December 2016 as illustrated in the table below:

	For the year ended 31 December	
	2015	2016
Revenue recognised		
HK\$10 million or above	5	9
HK\$1 million to below HK\$10 million	15	11
Below HK\$1 million	<u>5</u>	<u>3</u>
	<u>25</u>	<u>23</u>

Costs of revenue

Cost of revenue of the Group increased by approximately HK\$35.6 million or 24.1% from HK\$147.8 million for the year ended 31 December 2015 to approximately HK\$183.4 million for the year ended 31 December 2016. The cost of revenue of the Group mainly includes material and processing charges, subcontracting charges and project staff costs, while these costs vary amongst different projects and also may fluctuate substantially from year to year, depending on the progress and stage of projects. The following is a discussion of the changes in the key components of

FINANCIAL INFORMATION

the Group’s cost of revenue for the year ended 31 December 2016 compared to that of the year ended 31 December 2015:

- (i) The material and processing charges increased from approximately HK\$60.2 million for the year ended 31 December 2015 to approximately HK\$73.0 million for the year ended 31 December 2016, representing an increase of approximately 21.2%. Such increase was mainly attributable to larger quantities of materials procured for the projects undertaken by the Group during the year ended 31 December 2016, such as two design and build projects in relation to the podium facade works for a commercial building in Cheung Sha Wan and Tsim Sha Tsui, respectively.
- (ii) The subcontracting charges increased from approximately HK\$57.3 million for the year ended 31 December 2015 to approximately HK\$72.9 million for the year ended 31 December 2016, representing an increase of approximately 27.1%. Such increase was mainly due to (a) a sizeable project in relation to the podium facade works for a commercial building in Tsim Sha Tsui proceeded to the installation stage which resulted in more subcontracting works engaged during the year; and (b) the higher average fees charged by the subcontractors.
- (iii) The project staff costs increased from approximately HK\$16.1 million for the year ended 31 December 2015 to approximately HK\$24.3 million for the year ended 31 December 2016, representing an increase of approximately 50.4%. The higher-than-proportion increase in project staff costs was mainly attributable to (a) the salary increment for project staff during year; (b) salary for additional staff hired during the year for the Shenzhen design office; and (c) the increased number of projects undertaken by the Group during the year.

Gross profit and gross profit margin

Gross profit of the Group for the year ended 31 December 2015 and 2016 respectively were as follows:

	For the year ended	
	31 December	
	2015	2016
Revenue (<i>HK\$’000</i>)	218,820	273,912
Gross profit (<i>HK\$’000</i>)	71,067	90,523
Gross profit margin	32.5%	33.0%

Gross profit of the Group amounted to approximately HK\$71.1 million and approximately HK\$90.5 million for the year ended 31 December 2015 and 2016, respectively, representing an increase of approximately 27.4%. The Group’s gross profit margin remained relatively stable.

FINANCIAL INFORMATION

With respect to the public sector, the Group’s recorded a high gross profit margin of approximately 97.8% for the year ended 31 December 2016, as compared to that of approximately 49.7% for the year ended 31 December 2015. Such exceptional high gross profit margin of the public sector for the year ended 31 December 2016 was mainly due to a works order in relation to design and build services for podium facade and related works that was placed under a term contract enter into between G & M Engineering and Customer A in April 2011 with a contract period of 36 months, of which (i) the works order was substantially completed in March 2015 and therefore the Group only incurred insignificant costs for remedial works for minor defects, storage and logistic arrangements for the year ended 31 December 2016; and (ii) the inflation adjustment granted by Customer A in accordance with the Building Works Tender Price Index published by the Architectural Services Department, which was only confirmed by Customer A while finalising the final account of the said works order and has no corresponding cost.

Other income, gains and losses

Other income, gains and losses of the Group decreased by approximately HK\$571,000 or 97.1% from approximately HK\$588,000 for the year ended 31 December 2015 to approximately HK\$17,000 for the year ended 31 December 2016. Such decrease was mainly attributable to (i) the decrease in interest income from held-to-maturity investments, due to the fact that the Group has redeemed the held-to-maturity investments in February 2015; and (ii) the decrease in bank interest income, dividend income from investments and loss on disposal of property, plant and equipment during the corresponding year.

Administrative and other operating expenses

Administrative and other operating expenses of the Group increased by approximately HK\$6.5 million or 46.0% from approximately HK\$14.1 million for the year ended 31 December 2015 to approximately HK\$20.6 million for the year ended 31 December 2016. Such increase was mainly attributable to (i) the increase in Directors’ emoluments of approximately HK\$3.6 million during the year ended 31 December 2016 as a result of an upward adjustment of the Directors’ salaries, allowances and other benefits of approximately HK\$2.2 million and the discretionary bonuses paid to the Directors of approximately HK\$1.4 million, the salary increment and the discretionary bonuses may vary from year to year depending on certain factors, such as experience, responsibilities, workload, time devoted to the Group and performance of the Group; (ii) the increase in office rental and utilities expenses of approximately HK\$1.2 million during the year the year ended 31 December 2016 due to office expansion; (iii) the increase in depreciation on property, plant and equipment of approximately HK\$1.0 million due to the additions of leasehold improvement in relation to fitting-out of new offices during the year ended 31 December 2016; and (iv) the increase in legal and professional fees of approximately HK\$[REDACTED] during the year ended 31 December 2016 as a result of the increased expenses for the [REDACTED]. After the [REDACTED], the Company will continue to review the remuneration and compensation packages of the Directors. For further details of the Directors’ remuneration policy, please refer to the section headed “Directors and senior management — Remuneration policy” in this [REDACTED].

Finance costs

Finance costs of the Group increased by approximately HK\$93,000 or 20.0% from approximately HK\$466,000 for the year ended 31 December 2015 to approximately HK\$559,000 for the year ended

FINANCIAL INFORMATION

31 December 2016. Such increase was mainly attributable to the increase in the Group’s proceeds from bank borrowings from approximately HK\$24.4 million during the year ended 31 December 2015 to approximately HK\$39.8 million for the year ended 31 December 2016.

Income tax expense

Income tax expense of the Group increased by approximately HK\$2.4 million or 26.2% from approximately HK\$9.4 million for the year ended 31 December 2015 to approximately HK\$11.8 million for the year ended 31 December 2016. Such increase was primarily due to the increase in the Group’s profit before tax from approximately HK\$55.9 million for the year ended 31 December 2015 to approximately HK\$61.9 million for the year ended 31 December 2016, representing an increase of approximately 10.8%. For the year ended 31 December 2015 the effective tax rate of the Group amounted to approximately 16.8% which was similar to the Hong Kong Profits Tax rate of 16.5%. For the year ended 31 December 2016, the effective tax rate of the Group amounted to approximately 19.1% and such increase was mainly due to the effect of [REDACTED] expenses which were not deductible for tax purposes.

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

Profit for the year of the Group increased by approximately HK\$3.6 million or 7.7% from approximately HK\$46.5 million for the year ended 31 December 2015 to approximately HK\$50.1 million for the year ended 31 December 2016 due to the combined effect of the aforementioned items.

Total comprehensive income for the year attributable to the owners of the Company increased by approximately HK\$3.9 million or 8.3% from approximately HK\$46.1 million for the year ended 31 December 2015 to approximately HK\$50.0 million for the year ended 31 December 2016.

WARRANTY EXPENSES AND PROVISIONS

For most of the Group’s design and build projects, the Group provides (i) a defects liability period typically ranging from 12 to 24 months from the date of practical completion, during which the Group is responsible to rectify any work defects; and (ii) a warranty typically ranging 10 to 15 years from the end of the defects liability period on certain aspects, including but not limited to glazing and waterproofing works.

The following table sets forth a breakdown of the Group’s warranty expenses during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Warranty expenses	821	137	222

FINANCIAL INFORMATION

For each of the three years ended 31 December 2016, the Group’s warranty expenses amounted to approximately HK\$821,000, HK\$137,000 and HK\$222,000, respectively, representing less than 1.0% of the Group’s total cost of revenue for the respective corresponding year.

For any project that incurs annual warranty expenses of either (i) more than 1% of its contract sum or HK\$120,000, whichever is lower; or (ii) HK\$150,000 or above for two consecutive years, the responsible project manager and the Group’s senior management will further access and identify the underlying reasons to decide if provision for warranty expenses is required for such project. During the Track Record Period, the Group has made provision for three design and build projects and the relevant amount of provisions made by the Group as at the end of each reporting period are as below:

	As at 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Provision for warranty	3,771	3,406	2,375

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Cash flows

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

	Year ended 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Net cash generated from operating activities	12,583	95,463	5,254
Net cash generated from/ (used in) investing activities	3,772	608	(20,636)
Net cash generated from/ (used in) financing activities	<u>2,717</u>	<u>(33,086)</u>	<u>(51,239)</u>
Increase/ (decrease) in cash and cash equivalents	19,072	62,985	(66,621)
Cash and cash equivalents at the beginning of the year	<u>33,046</u>	<u>52,118</u>	<u>115,103</u>
Cash and cash equivalents at the end of the year	<u><u>52,118</u></u>	<u><u>115,103</u></u>	<u><u>48,482</u></u>

FINANCIAL INFORMATION

Cash flows from operating activities

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

Year ended 31 December 2014

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

Year ended 31 December 2015

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

Year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded net cash generated from operating activities of approximately HK\$5.3 million, primarily attributable to profit before income tax of approximately HK\$61.9 million; adjusted to reflect mainly (i) depreciation of property, plant and equipment of approximately HK\$1.6 million; (ii) interest expenses of approximately HK\$559,000; (iii) an increase in trade and other receivables of approximately HK\$55.3 million; (iv) a decrease in amounts due from customers of contract works of approximately HK\$5.0 million; (v) a decrease in trade and other payables of approximately HK\$5.9 million; (vi) increase in amounts due to customers of contract works of approximately HK\$5.5 million; (vii) a change in balance with a Director of approximately HK\$7.6 million; and (viii) income tax paid of approximately HK\$16.0 million.

FINANCIAL INFORMATION

Cash flows from investment activities

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

Year ended 31 December 2014

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

Year ended 31 December 2015

For the year ended 31 December 2015, the Group recorded net cash generated from investing activities of approximately HK\$608,000 mainly due to (i) a decrease in pledge bank deposits of approximately HK\$4.5 million; (ii) proceeds from redemption of held-to-maturity investments of approximately HK\$2.9 million; and (iii) sales proceeds from disposal of available-for-sale investments of approximately HK\$2.7 million, which was partially offset by the acquisition of held-to-maturity investments of approximately HK\$8.4 million and prepayment for acquisition of property, plant and equipment of approximately HK\$922,000.

Year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded net cash used in investing activities of approximately HK\$20.6 million mainly due to (i) an increase in pledge bank deposits of approximately HK\$17.0 million to secure the Group’s bank borrowings; and (ii) acquisition of property, plant and equipment of approximately HK\$3.2 million.

Cash flows from financing activities

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

Year ended 31 December 2014

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

FINANCIAL INFORMATION

Year ended 31 December 2015

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

Year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded net cash used in financing activities of approximately HK\$51.2 million mainly due to (i) the repayment of bank borrowings of approximately HK\$37.4 million; (ii) dividends payment of approximately HK\$45.9 million; and (iii) deemed distribution to a controlling shareholder of HK\$7.0 million, which was partially offset by the proceeds from bank borrowings of approximately HK\$39.8 million.

CAPITAL EXPENDITURES

During each of the three years ended 31 December 2016, the Group incurred capital expenditure for the addition of property, plant and equipment, which mainly includes purchases of plant and machinery, furniture, fixture and equipment, office equipment, motor vehicles and leasehold improvement, of approximately HK\$1.4 million, HK\$0.3 million and HK\$4.1 million, respectively.

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

WORKING CAPITAL

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

FINANCIAL INFORMATION

NET CURRENT ASSETS

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

	As at 31 December			As at
	2014	2015	2016	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Current assets				
Inventories	1,033	1,148	976	[800]
Amounts due from customers of contract works	42,910	19,954	14,955	[15,872]
Trade and other receivables	23,248	18,927	74,217	[53,295]
Amount due from a director	—	7,646	—	[—]
Held-to-maturity investments	2,850	—	—	[—]
Pledged bank deposits	8,717	4,205	21,211	[21,212]
Cash and bank balances	<u>52,118</u>	<u>115,103</u>	<u>48,482</u>	<u>[45,944]</u>
	<u>130,876</u>	<u>166,983</u>	<u>159,841</u>	<u>[137,123]</u>
Current liabilities				
Amounts due to customers of contract works	15,948	18,927	24,439	[13,565]
Trade and other payables	29,290	43,737	37,957	[34,710]
Amount due to a director	1,058	—	—	[—]
Tax payable	8,022	12,254	8,107	[11,158]
Bank borrowings	11,316	7,600	10,027	[6,287]
Obligation under finance lease	<u>201</u>	<u>207</u>	<u>178</u>	<u>[125]</u>
	<u>65,835</u>	<u>82,725</u>	<u>80,708</u>	<u>[65,845]</u>
Net current assets	<u>65,041</u>	<u>84,258</u>	<u>79,133</u>	<u>[71,278]</u>

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

The Group’s net current assets decreased by approximately HK\$5.1 million as at 31 December 2016 as compared with that of approximately HK\$84.3 million as at 31 December 2015, which was mainly due to the Group’s profit of approximately HK\$50.1 million and offset by dividend of

FINANCIAL INFORMATION

approximately HK\$45.9 million, deemed distribution to a controlling shareholder of approximately HK\$7.0 million; such decrease can be analysed as (i) a decrease of approximately HK\$66.6 million in cash and bank balances; (ii) a decrease of approximately HK\$5.0 million in amounts due from customer of contract works; (iii) an increase of approximately HK\$5.5 million in amounts due to customers of contract works; and (iv) an increase of approximately HK\$2.4 million in bank borrowings, while partially offset by (v) an increase of approximately HK\$55.3 million in trade and other receivables; (vi) an increase of approximately HK\$17.0 million in pledged bank deposits; and (vii) a decrease of approximately HK\$5.8 million in trade and other payables.

HELD-TO-MATURITY AND AVAILABLE-FOR-SALE INVESTMENTS

As at 31 December 2014, 2015 and 2016, the Group had held-to-maturity investments of approximately HK\$2.9 million, nil and nil, respectively. Such held-to-maturity investments included certain debt securities listed in Hong Kong. As at 31 December 2014, 2015 and 2016, the Group had available-for-sale investments of approximately HK\$2.3 million, nil and nil, respectively. Such available-for-sale investments included equity securities listed in Hong Kong and investment funds. Both held-to-maturity investments and available-for-sale investments were purchased with the Group’s idle funds in the past and held for investment purposes.

The Group’s investment policy include seeking professional advice of the relevant banks in making investment decisions, and the entering into such purchase of debt securities was approved by the executive Directors. The Group’s financial investments are subject to on-going review and monitoring. The Directors assess, at the end of each reporting period, whether there is any objective evidence that these investments are impaired.

The held-to-maturity investments were partially sold to a Director in December 2015 and partially redeemed by the issuer on maturity in February 2015. The available-for-sale investments were sold by the Group in December 2015. The Directors has no current intention to purchase similar and/or other available-for-sale investments in the future.

INVENTORY ANALYSIS

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

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

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

FINANCIAL INFORMATION

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

	Year ended 31 December		
	2014	2015	2016
Inventory turnover days	1.4	1.8	1.4

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

For each of the three years ended 31 December 2016, the Group’s inventory turnover days amounted to approximately 1.4 days, 1.8 days and 1.4 days. Due to the nature of the Group’s inventory, which raw materials are stored in the factories of its suppliers to be further fabricated shortly, therefore the Group has relatively short inventory turnover days.

As at 31 March 2017, approximately HK\$976,000 or 100.0% of the Group’s inventories as at 31 December 2016 has been used.

AMOUNTS DUE FROM/(TO) CUSTOMERS OF CONTRACT WORKS

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Contract costs incurred to date plus recognised profits			
less recognised losses	646,071	785,781	728,874
Less: Progress billings to date	<u>(619,109)</u>	<u>(784,754)</u>	<u>(738,358)</u>
	<u>26,962</u>	<u>1,027</u>	<u>(9,484)</u>
Amounts due from customers of contract works	42,910	19,954	14,955
Amounts due to customers of contract works	<u>(15,948)</u>	<u>(18,927)</u>	<u>(24,439)</u>
	<u>26,962</u>	<u>1,027</u>	<u>(9,484)</u>

FINANCIAL INFORMATION

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

As at 31 December 2014, 2015 and 2016, the Group had (i) amounts due from customers of contract works of approximately HK\$42.9 million, HK\$20.0 million and HK\$15.0 million, respectively; and (ii) amounts due to customers of contract works of approximately HK\$16.0 million, HK\$18.9 million and HK\$24.4 million, respectively.

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

As at 31 March 2017, approximately HK\$9.9 million or 66.2% of the Group’s amount due from customers of contract works as at 31 December 2016 has been settled or certified.

TRADE AND OTHER RECEIVABLES

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

	As at 31 December		
	2014	2015	2016
	HK\$’000	HK\$’000	HK\$’000
Trade receivables	11,524	8,895	30,220
Retention receivables	10,324	6,331	9,737
Deposits, prepayments and other receivables	<u>1,400</u>	<u>3,701</u>	<u>34,260</u>
	<u>23,248</u>	<u>18,927</u>	<u>74,217</u>

FINANCIAL INFORMATION

Trade receivables

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 30 days	8,022	6,435	28,189
31 — 60 days	370	73	485
61 — 90 days	308	284	35
Over 90 days but less than 1 year	1,751	541	268
Over 1 year	<u>1,073</u>	<u>1,562</u>	<u>1,243</u>
	<u>11,524</u>	<u>8,895</u>	<u>30,220</u>

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	<u>8,342</u>	<u>6,592</u>	<u>28,165</u>
Past due but not impaired			
Past due less than 30 days	50	200	304
Past due for 30 or more but less than 60 days	309	8	240
Past due for 60 or more but less than 90 days	1,145	100	24
Past due for 90 days but less than 1 year	805	433	491
Past due for 1 year or more	<u>873</u>	<u>1,562</u>	<u>996</u>
	<u>3,182</u>	<u>2,303</u>	<u>2,055</u>
	<u>11,524</u>	<u>8,895</u>	<u>30,220</u>

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

FINANCIAL INFORMATION

The Group’s trade receivables mainly represent the billed amount of progress payment receivables from its customers for the contract works performed by the Group. As at 31 December 2014, 2015 and 2016, the Group’s trade receivables amounted to approximately HK\$11.5 million, HK\$8.9 million and HK\$30.2 million, respectively. As at 31 December 2014 and 2015, the Group’s trade receivables due from a major customer with a credit period of 20 days amounted to approximately HK\$0.4 million and HK\$4.1 million, respectively. However, as at 31 December 2016, the Group’s trade receivables due from such major customer increased to approximately HK\$7.6 million, at the same time, approximately HK\$18.7 million were due from other two major customers, to which the Group has granted a longer credit period of 60 days.

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

	Year ended 31 December		
	2014	2015	2016
Trade receivables turnover days	24.6	17.0	26.1

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

For each of the three years ended 31 December 2016, the Group’s trade receivables turnover days were approximately 24.6 days, 17.0 days and 26.1 days, respectively, which were generally in line with the credit period of 20 to 60 days granted by the Group to its customers. The relatively longer trade receivables turnover days during the year ended 31 December 2016 was mainly due to relatively longer credit periods granted to certain major customers as compared with that for the two years ended 31 December 2015.

As at 31 March 2017, approximately HK\$27.0 million or 89.2% of the Group’s trade receivables as at 31 December 2016 has been settled.

FINANCIAL INFORMATION

Retention receivables

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet past due	6,539	3,466	7,035
Past due less than 1 year	3,271	2,533	1,032
Past due over 1 year or more	<u>514</u>	<u>332</u>	<u>1,670</u>
	<u>10,324</u>	<u>6,331</u>	<u>9,737</u>

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

	Year ended 31 December		
	2014	2015	2016
Retention receivables turnover days	21.7	13.9	10.7

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

For each of the three years ended 31 December 2016, the Group’s retention receivables turnover days amounted to approximately 21.7 days, 13.9 days and 10.7 days, respectively. The decreasing trend in the Group’s retention receivables turnover days was mainly due to (i) the relative stable level of retention receivables; and (ii) the increase in the Group’s revenue during the Track Record Period.

FINANCIAL INFORMATION

Deposits, prepayments and other receivables

The following table sets forth a breakdown of the Group’s deposits, prepayments and other receivables as at the end of each reporting period:

	As at 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits	87	241	650
Prepayments			
- Material and processing charges	626	645	31,317
- Subcontracting charges	—	—	606
- [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
- Others	3	46	62
Other receivables	684	876	945
	1,400	3,701	34,260

The Group’s deposits mainly include utilities deposit and rental deposit while the Group’s prepayments can be divided into four categories, namely (i) material and processing charges; (ii) subcontracting charges; (iii) [REDACTED] expenses; and (iv) other miscellaneous prepayments. The Group is generally required to pay its suppliers in advance of payment from its customers, whereas its customers normally make progress payments to the Group after the works have commenced and/or completed. A typical design and build project generally incurs prepayments of material and processing charges, such as material fabrication and setting up of mock-up test, at the early to mid-stage and rarely incurs prepayments of material and processing charges at the installation stage. In addition, some of the Group’s suppliers require 30% to 50% of the total purchase order amount as deposit. As at 31 December 2014, 2015 and 2016, the Group’s prepayments of material and processing charges amounted to approximately HK\$626,000, HK\$645,000 and HK\$31.3 million, respectively, representing approximately 0.2%, 0.2% and 7.2% of the Group’s value of design and build projects on hand as at the end of the reporting date, respectively. The Directors consider that there is no direct correlation between the amount of prepayments of material and processing charges and the Group’s value of design and build projects on hand because (i) deposit requirement and payment schedule agreed between each supplier and the Group differ from project to project; and (ii) the progress of the Group’s design and build projects on hand as at the respective year-end date varies widely depending on their respective programme. The significant increase in prepayments of material and processing charges of approximately HK\$30.7 million from approximately HK\$0.6 million as at 31 December 2015 to HK\$31.3 million as at 31 December 2016 was mainly due to the advance payments to suppliers of two design and build projects for the mock-up test, glasses, aluminium sliding system and handrail. As at 31 December 2016, the prepayments of material and processing charges of these two projects amounted to approximately HK\$26.8 million and HK\$3.7 million, respectively, representing approximately 51.9% and 37.2% of their respective purchase order as at 31 December 2016 of approximately HK\$51.8 million and HK\$10.0 million, respectively. Other receivables of the Group represent the receivables from insurance companies in relation to claims of the Group.

FINANCIAL INFORMATION

As at 31 March 2017, approximately HK\$13.9 million or 44.5% of the Group’s prepayments of material and processing charges as at 31 December 2016 has been utilised.

AMOUNT DUE FROM/(TO) A DIRECTOR

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

TRADE AND OTHER PAYABLES

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade payables	22,126	33,675	21,329
Retention payables	1,924	3,643	7,369
Accruals and other payables	5,240	6,419	6,252
Receipt in advance	—	—	3,007
	<u>29,290</u>	<u>43,737</u>	<u>37,957</u>

Trade payables

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
0 — 30 days	8,023	15,071	10,732
31 — 60 days	3,429	9,397	2,937
61 — 90 days	533	2,281	1,012
Over 90 days	<u>10,141</u>	<u>6,926</u>	<u>6,648</u>
	<u>22,126</u>	<u>33,675</u>	<u>21,329</u>

FINANCIAL INFORMATION

The Group’s trade payables mainly represent the payables for material and processing charges and subcontracting charges. As at 31 December 2014, 2015 and 2016, the Group’s trade payables amounted to approximately HK\$22.1 million, HK\$33.7 million and HK\$21.3 million, respectively. The increase as at 31 December 2015 was mainly due to the increase in cost of revenue for the year ended 31 December 2015 as compared with that for the year ended 31 December 2014. The decrease in trade payables as at 31 December 2016 was mainly due to advance payments of two design and build projects.

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

	Year ended 31 December		
	2014	2015	2016
Trade payables turnover days	58.2	46.5	36.6

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

For each of the three years ended 31 December 2016, the Group’s trade payables turnover days were approximately 58.2 days, 46.5 days and 36.6 days, respectively, which were generally in line with the credit period of 0 to 60 days granted to the Group by its suppliers and subcontractors. The decreasing trend in the Group’s trade payables turnover days was mainly due to (i) the relative stable level of trade payables; and (ii) the increase in the Group’s revenue during the Track Record Period.

As at 31 March 2017, approximately HK\$15.6 million or 73.2% of the Group’s trade payables as at 31 December 2016 has been settled.

Retention payables

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

	As at 31 December		
	2014	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within 1 year	1,667	3,337	5,635
Over 1 year	<u>257</u>	<u>306</u>	<u>1,734</u>
	<u>1,924</u>	<u>3,643</u>	<u>7,369</u>

FINANCIAL INFORMATION

INDEBTEDNESS

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

	As at 31 December			As at
	2014	2015	2016	31 March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
				(unaudited)
Current liabilities				
Bank borrowings	11,316	7,600	10,027	[6,287]
Obligation under finance lease	<u>201</u>	<u>207</u>	<u>178</u>	<u>[125]</u>
	<u>11,517</u>	<u>7,807</u>	<u>10,205</u>	<u>[6,412]</u>
Non-current liability				
Obligation under finance lease	<u>385</u>	<u>178</u>	<u>—</u>	<u>[—]</u>
	<u><u>11,902</u></u>	<u><u>7,985</u></u>	<u><u>10,205</u></u>	<u><u>[6,412]</u></u>

As at 31 December 2014, 2015 and 2016, the Group’s indebtedness position was at approximately HK\$11.9 million, HK\$8.0 million and HK\$10.2 million, respectively. The Group’s indebtedness was primarily bank borrowings of approximately HK\$11.3 million, HK\$7.6 million and HK\$10.0 million as at 31 December 2014, 2015 and 2016, respectively, which were used for financing the Group’s daily operations.

As at 31 March 2017, the Group had a total available banking facilities of approximately HK\$80.4 million, of which approximately HK\$34.1 million was utilised and approximately HK\$46.3 million was unutilised. Amongst such unutilised banking facilities, (i) approximately HK\$11.6 million represents facilities reserved for foreign exchange; and (ii) approximately HK\$12.0 million represents SME loans that will be cancelled by the Group before [REDACTED], and were not available for the Group’s operation purposes. As such, the unutilised banking facilities available for the Group’s operations amounted to only approximately HK\$22.7 million. The Group intends to repay any outstanding banking facilities primarily by the internal resources generated from its operating activities. The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, the Group has not experienced any difficulties in obtaining bank borrowings nor any default in repayment on bank borrowings.

FINANCIAL INFORMATION

Bank borrowings

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

	As at 31 December			As at 31 March
	2014	2015	2016	2017
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Bank borrowings	<u>11,316</u>	<u>7,600</u>	<u>10,027</u>	<u>6,287</u> (unaudited)

Notes:

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

The interest rates of the Group’s bank borrowings as at 31 March 2017 granted under banking facilities were [5.25]% per annum.

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

- Bank deposits of HK\$8,717,000, HK\$4,205,000 and HK\$21,211,000 as at 31 December 2014, 2015 and 2016, respectively.
- Personal guarantees from Mr. Lee and Ms. Ku;
- Legal charge over (i) a property owned by Mr. Lee and Ms. Lam as at 31 December 2014; and (ii) a property owned by Mr. Lee as at 31 December 2015 and 2016;
- Legal charge over a property owned by Mr. Leung and Ms. Ku as at 31 December 2014, 2015 and 2016; and
- Legal charge over a property owned by a related company, in which Ms. Lam and Mr. Leung have equity interests as at 31 December 2014, 2015 and 2016.

The abovementioned personal guarantees and the legal charge over the properties existed at the date of this report will be fully released, discharged or replaced by corporate guarantees or other securities provided by the Group upon the [REDACTED].

The Group’s bank borrowings and banking facilities as at 31 March 2017 are secured by the following:

- Bank deposits of HK\$21,212,000 as at 31 March 2017;
- Personal guarantees from Mr. Lee and the spouse of Mr. Leung;
- Legal charge over a property owned by Mr. Lee;
- Legal charge over a property owned by Mr. Leung and his spouse; and
- Legal charge over a property owned by a related company, in which the spouse of Mr. Lee and Mr. Leung have equity interests as at 31 March 2017.

The personal guarantees and the legal charge over the properties existed at the date of this [REDACTED] will be fully released, discharged or replaced by corporate guarantees or other securities provided by the Group upon the [REDACTED].

FINANCIAL INFORMATION

Obligation under finance lease

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

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

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

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

	Minimum lease payments	Interest	Present value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>As at 31 December 2016</i>			
Not later than one year	180	(2)	178
Later than one year and not later than five years	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>180</u></u>	<u><u>(2)</u></u>	<u><u>178</u></u>

FINANCIAL INFORMATION

	Minimum lease payments <i>HK\$'000</i> (unaudited)	Interest <i>HK\$'000</i> (unaudited)	Present value <i>HK\$'000</i> (unaudited)
<i>As at 31 March 2017</i>			
Not later than one year	126	(1)	125
Later than one year and not later than five years	<u>—</u>	<u>—</u>	<u>—</u>
	<u>126</u>	<u>(1)</u>	<u>125</u>

The net carrying amounts of the Group’s motor vehicle held under finance lease, which are classified as property, plant and equipment as at 31 December 2014, 2015 and 2016 amounted to approximately HK\$572,000, HK\$327,000 and HK\$82,000, respectively.

The net carrying amount of the Group’s motor vehicle held under finance lease, which is classified as property, plant and equipment as at 31 March 2017 amounted to approximately HK\$21,000.

The Group’s finance lease liabilities are subject to personal guarantee provided by Mr. Lee as at 31 March 2017. The Directors confirmed that the outstanding finance lease liabilities would be settled prior to the [REDACTED]. After full repayment of such finance lease liabilities, the aforementioned personal guarantee given by Mr. Lee will be released.

The present value of future lease payments is analysed as:

	As at 31 December			As at 31 March
	2014	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities	201	207	178	[125]
Non-current liabilities	<u>385</u>	<u>178</u>	<u>—</u>	<u>[—]</u>
	<u>586</u>	<u>385</u>	<u>178</u>	<u>[125]</u>

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

The effective interest rate of the Group’s finance lease liability as at 31 March 2017 was 2.92% per annum.

FINANCIAL INFORMATION

Contingent liabilities

Guarantees

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

	As at 31 December			As at
	2014	2015	2016	31 March
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
				(unaudited)
Aggregate value of the surety bonds issued in favour of customers	<u>10,905</u>	<u>7,954</u>	<u>27,768</u>	<u>[27,768]</u>

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

Litigation

During the Track Record Period, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remained outstanding as at 31 December 2016. Claim amounts are not specified in some of the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance coverage is maintained to cover the losses, if any, arising from most of these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have material adverse impact on the financial position of the Group.

Save as disclosed and as otherwise disclosed in sub-section headed “Indebtedness” in this section, and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debt securities, term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or any guarantees or other material contingent liabilities at the close of business on 31 March 2017.

Material indebtedness change

The Directors confirm that (i) there has not been any material change in the Group’s indebtedness and contingent liabilities since 31 December 2016 and up to the Latest Practicable Date; (ii) the Directors are not aware of any material defaults in payment of the Group’s trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iii) the bank loans, finance lease and bank facility is subject to standard banking conditions; (iv) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group’s bank borrowings and facilities are subject to the

FINANCIAL INFORMATION

fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group’s ability to undertake additional debt or equity financings. Save as disclosed in sub-section headed “Indebtedness” in this section, the Group did not have, at the close of business on 31 December 2016, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET HIRE PURCHASE COMMITMENTS AND ARRANGEMENTS

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

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company did not have any distributable reserve available for distribution to Shareholders.

KEY FINANCIAL RATIOS

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

	<i>Notes</i>	Year ended 31 December		
		2014	2015	2016
Return on total assets	1	23.3%	27.6%	30.6%
Return on equity	2	45.9%	54.2%	60.4%
Net profit margin	3	20.7%	21.2%	18.3%
Interest coverage	4	116.2 times	120.9 times	111.7 times
		As at 31 December		
		2014	2015	2016
Current ratio	5	2.0	2.0	2.0
Quick ratio	6	2.0	2.0	2.0
Gearing ratio	7	17.5%	9.3%	12.3%
Net debt to equity ratio	8	N/A	N/A	N/A

Notes:

- Return on total assets is calculated by dividing profit for the respective year with total assets as at the end of the respective year multiplied by 100%.

FINANCIAL INFORMATION

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

Return on total assets

Return on total assets of the Group amounted to approximately 23.3% and 27.6% for each of the two years ended 31 December 2015, respectively, such increase was primarily due to the increase of the Group’s profit of the year from approximately HK\$31.3 million for the year ended 31 December 2014 to approximately HK\$46.5 million for the year ended 31 December 2015. For the year ended 31 December 2016, the Group recorded return on total assets of approximately 30.6%, which was higher than that of approximately 27.6% for the year ended 31 December 2015. Such increase was primarily due to (i) the increase of the Group’s profit of the year from approximately HK\$46.5 million for the year ended 31 December 2015 to approximately HK\$50.1 million for the year ended 31 December 2016; and (ii) the decrease in total assets of the Group of approximately HK\$168.7 million as at 31 December 2015 to approximately HK\$163.7 million as at 31 December 2016.

Return on equity

Return on equity of the Group was approximately 45.9% and 54.2% for each of the two years ended 31 December 2015, respectively, such increase was primarily due to the increase of the Group’s profit of the year from approximately HK\$31.3 million for the year ended 31 December 2014 to approximately HK\$46.5 million for the year ended 31 December 2015 and was partly offset by the increase in equity from approximately HK\$68.1 million as at 31 December 2014 to approximately HK\$85.8 million as at 31 December 2015. For the year ended 31 December 2016, the Group recorded return on equity of approximately 60.4%, which was higher than that of approximately 54.2% for the year ended 31 December 2015. Such increase was primarily due to (i) the increase of the Group’s profit of the year from approximately HK\$46.5 million for the year ended 31 December 2015 to approximately HK\$50.1 million for the year ended 31 December 2016; and (ii) the decrease in total equity of the Group of approximately HK\$85.8 million as at 31 December 2015 to approximately HK\$82.9 million as at 31 December 2016, mainly as a result from the dividends declared of approximately HK\$45.9 million and the deemed distribution to a controlling shareholder of HK\$7.0 million.

FINANCIAL INFORMATION

Net profit margin

Net profit margins of the Group remained relatively stable at approximately 20.7%, 21.2% and 18.3% for each of the three years ended 31 December 2016, respectively. The Group recorded net profit margin of approximately 18.3% for the year ended 31 December 2016, which was lower than that of each of the two years ended 31 December 2015. If the corresponding [REDACTED] expenses of approximately HK\$[REDACTED] and HK\$[REDACTED] were excluded, the Group’s net profit margin for the year ended 31 December 2015 and 2016 would have been approximately 21.8% and 21.0%, respectively, which remained relatively stable.

Interest coverage

Interest coverage of the Group amounted to approximately 116.2 times, 120.9 times and 111.7 times for each of the three years ended 31 December 2016, respectively. The increase of the Group’s interest coverage over the two years ended 31 December 2015 was primarily due to the increase in the Group’s revenue and profit before finance costs and income tax. The Group’s interest coverage amounted to approximately 111.7 times for the year ended 31 December 2016, which was lower than that of each of the two years ended 31 December 2015 respectively. Such decrease was primarily due to the increase of the finance costs to a larger extent as compared to that of the profit before finance costs and income tax during the year 31 December 2016. For further details, please refer to the subsection headed “Comparison of results of operations” in this section.

Current ratio

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

Quick ratio

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

Gearing ratio

Gearing ratio of the Group amounted to approximately 17.5%, 9.3% and 12.3% as at 31 December 2014, 2015 and 2016, respectively. The fluctuations during the Track Record Period were mainly due to the changes in total debt of approximately HK\$11.9 million, HK\$8.0 million and HK\$10.2 million as at 31 December 2014, 2015 and 2016, respectively. The increase in total debt as at 31 December 2016 was mainly attributable to the increase of approximately HK\$2.4 million of the Group’s bank borrowings from approximately HK\$7.6 million as at 31 December 2015 to approximately HK\$10.0 million as at 31 December 2016.

FINANCIAL INFORMATION

Net debt to equity ratio

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

RELATED PARTY TRANSACTIONS

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

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

CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital management

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

Financial risk management

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared on the basis of the notes set forth below, for the purpose of illustrating the effect of the [REDACTED] as if it had taken place on 31 December 2016. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group after the [REDACTED] or at any future dates.

	Net tangible assets of the Group as at 31 December 2016	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma adjusted net tangible assets per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on the [REDACTED] of HK\$[REDACTED] per Share	82,947	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share	82,947	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

1. The combined net tangible assets of the Company as at 31 December 2016 are based on audited combined net assets of the Company as at 31 December 2016 of HK\$82,947,000 as shown in the Accountant’s Report set out in Appendix I to this [REDACTED].
2. The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares to be issued at the minimum and maximum indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per share, respectively, after deduction of the underwriting fees and related expenses of approximately HK\$[REDACTED] or HK\$[REDACTED], based on the [REDACTED] of HK\$[REDACTED] or HK\$[REDACTED] per Share, payable and borne by the Company which has not been reflected in combined net tangible assets of the Company as at 31 December 2016. [No account has been taken of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.]
3. The unaudited pro forma combined net tangible assets per Share is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue assuming the [REDACTED] had been completed on 31 December 2016, but takes no account of any Shares which may be issued pursuant to the exercise of any options may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this [REDACTED].
4. The unaudited pro forma combined net tangible assets of the Group and the unaudited pro forma combined net tangible assets per Share have not taken into account the interim dividends declared subsequent to 31 December 2016.

On 31 March 2017, the directors of a subsidiary declared interim dividend amounting to HK\$20,000,000 to its then shareholders and such dividend was settled by current accounts with Directors. Had the dividend of HK\$20,000,000 been taken into account, the unaudited pro forma combined net tangible assets per Share would have been reduced to HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share), respectively.

FINANCIAL INFORMATION

5. No adjustment has been made to the unaudited pro forma combined net tangible assets of the Group to reflect any trading results or other transactions of the Company entered into subsequent to 31 December 2016.

[REDACTED] EXPENSES

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

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

DIVIDENDS

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

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Interim dividends attributable to			
- Owners of the Company	—	28,560	45,900
- Non-controlling interests	29	140	—
	<u>29</u>	<u>28,700</u>	<u>45,900</u>

No dividend has been paid or declared by the Company since its incorporation. For each of the two years ended 31 December 2016, subsidiaries of the Company declared interim dividend of approximately HK\$28,700,000 and HK\$45,900,000, respectively, to their then shareholders.

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

FINANCIAL INFORMATION

The Group declared an interim dividend of HK\$20,000,000 on 31 March 2017 to the then shareholders of the Group, which will be settled prior to the [REDACTED]. The aforesaid interim dividend will be financed by internal resources generated from the Group’s business operation including cash and the trade receivables settled by customers subsequent to the Track Record Period.

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the sections headed “Summary — Recent development” and “Summary — [REDACTED] expenses” in this [REDACTED], the Directors confirm that, up to the date of this [REDACTED], there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2016 (being the date to which the latest audited combined financial statements of the Group were prepared), and there is no event since 31 December 2016 which would materially affect the information shown in the Accountant’s Report set out in Appendix I to this [REDACTED].