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OVERVIEW

We are an established fitting-out contractor in Hong Kong with over 22 years of experience since the establishment of one of our principal operating subsidiaries, Hoi Sing Decoration, in 1995.

Our fitting-out services cover both (i) fitting-out works conducted on new buildings; and (ii) interior renovation works on existing buildings that involve upgrades, makeovers and demolition of existing works. Our fitting-out services are mainly provided for residential and commercial properties in Hong Kong on a project basis. To a lesser extent, we also engage in supply of fitting-out materials such as timber products upon customers’ requests in Hong Kong.

Revenue by business operations

The following table sets forth a breakdown of our revenue by business operations during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Fitting-out services	238,823	99.4	346,099	99.9	560,283	100
Supply of fitting-out materials	1,326	0.6	292	0.1	–	–
Total	240,149	100.0	346,391	100.0	560,283	100.0

Revenue under fitting-out services by property type

The following table sets forth a breakdown of our revenue under fitting-out services by property type during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Residential	222,789	93.3	341,776	98.8	530,355	94.7
Non-residential ^(Note)	16,034	6.7	4,323	1.2	29,928	5.3
Total	238,823	100.0	346,099	100.0	560,283	100.0

Note: Non-residential properties mainly include (i) commercial properties; and (ii) a residential care home for the elderly.

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Revenue by customer type

During the Track Record Period, we focus on providing fitting-out services to customers from the private sector in Hong Kong. Our customers mainly include (i) property developers; (ii) contractors; and (iii) property owners.

The following table sets forth a breakdown of our revenue by customer type during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Property developers ^(Note 1)	237,284	98.8	344,264	99.4	424,400	75.8
Contractors	–	–	–	–	89,281	15.9
Property owners	1,539	0.6	1,835	0.5	22,900	4.1
Others ^(Note 2)	1,326	0.6	292	0.1	23,702	4.2
Total	240,149	100.0	346,391	100.0	560,283	100.0

Notes:

1. The category “Property developers” includes both property developers and their subsidiaries.
2. The category “Others” comprise transactions with Hoi Sing International which formerly engaged in retail trading of timber flooring and Customer I which engages in the provision of residential care services for the elderly. For details, please refer to the paragraph headed “Our customers – Top customers” in this section.

During the Track Record Period, we have established business relationship with over 40 customers, among which, Customer A, being our largest property developer customer during the Track Record Period, has over 12 years of business relationship with us. Our major customers include leading property developers. According to the Ipsos Report, the respective holding companies of some of our top five customers during the Track Record Period, namely Customer A, Customer B and Customer C, are among the top 10 property developers in Hong Kong based on their revenue derived from property development in 2017. Our landmark projects undertaken throughout our operating history included providing fitting-out services for various residential and commercial development projects in Hong Kong. For some of our landmark projects undertaken throughout our operating history, please refer to the section headed “History, development and reorganisation – Key business milestones” in this document.

We pride ourselves in our project management capability and our ability to strategically subcontract on-site labour intensive works to our subcontractors, while maintaining overall project management and implementation. We act as the project manager and principal coordinator for the works we are responsible for which encompasses planning, coordinating, monitoring and supervising the project from project implementation to completion as well as monitoring rectification of defects during the defects liability period. For FY2015/16, FY2016/17 and FY2017/18, the subcontracting charges incurred by us amounted to approximately HK\$134.5 million, HK\$203.1 million and HK\$276.9 million, respectively.

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Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors; (ii) suppliers of materials required for performing our fitting-out services such as finished furniture products, timber products, glass and metal; and (iii) suppliers of other miscellaneous services such as rental of machinery and equipment, transportation services and consultancy services. For further information regarding our suppliers, please refer to the section headed “Business – Suppliers” in this document. The major cost components of our Group’s operation include subcontracting charges and cost of materials, which in aggregate accounted for approximately 94.2%, 93.9% and 94.1% of our total direct costs for FY2015/16, FY2016/17 and FY2017/18 respectively.

As advised by our HK Legal Counsel, there is no particular licence required to be obtained by our Group before we commence provision of fitting-out services except for the relevant business registration. All the necessary licences required for fitting-out projects in which our Group is involved are to be obtained by the relevant property developer and main contractor. Although not required under Hong Kong law, during the Track Record Period, Hoi Sing Decoration and Milieu are registered under the Subcontractor Registration Scheme of the Construction Industry Council. For further details of such registration, please refer to the paragraph headed “Licences and qualifications” in this section.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our historical success and future potential growth:

We have an established reputation and a proven track record in the fitting-out industry

Our first operating subsidiary, namely Hoi Sing Decoration, was incorporated in 1995 for the provision of fitting-out services in Hong Kong and we have since then accumulated more than 22 years of experience. Our landmark projects undertaken throughout our operating history included providing fitting-out services for various residential and commercial development projects in Hong Kong. For some of our landmark projects undertaken throughout our operating history, please refer to the section headed “History, development and reorganisation – Key business milestones” in this document. During the Track Record Period and up to the Latest Practicable Date, we had undertaken over 80 fitting-out projects with an aggregate accumulated revenue recognised amounting to over HK\$900 million. As an award of a project is usually based on industry reputation and proven track record according to the Ipsos Report, our Directors are of the view that the above would enable us to be capable of competing with both current and potential new competitors. With the support from our professional staff, suppliers and subcontractors, we believe we have established a good reputation in the fitting-out industry and have demonstrated a proven track record of completing projects on time as well as to the satisfaction of our customers.

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We are one of the local fitting-out contractors in Hong Kong with established long-term business relationships with leading property developers

The fitting-out industry in Hong Kong is fragmented and competitive. According to the Ipsos Report, as at 1 April 2018, there were 680 companies registered as subcontractors under the category of renovation and fitting-out with the Construction Industry Council. Nevertheless, we have accumulated more than 22 years of operating history in Hong Kong with an established network of customers, suppliers and subcontractors. Our customers include property developers, contractors and property owners, with property developers contributing most of our revenue. For FY2015/16, FY2016/17 and FY2017/18, our revenue attributable to property developers amounted to approximately HK\$237.3 million, HK\$344.3 million and HK\$424.4 million, representing approximately 98.8%, 99.4% and 75.8% of our revenue, respectively. During the Track Record Period, we have established business relationship with over 40 customers, among which, Customer A, being our largest property developer customer during the Track Record Period, has over 12 years of business relationship with us. Our major customers include leading property developers. According to the Ipsos Report, the respective holding companies of some of our top five customers during the Track Record Period, namely Customer A, Customer B and Customer C, are among the top 10 property developers in Hong Kong based on their revenue derived from property development in 2017. Our Directors are of the view that our established long-term business relationships with our major property developer customers differentiate us from our competitors.

Strong management team with in-depth knowledge in the fitting-out industry

With an experienced team of executive Directors and senior management, in which most of them have been working with our Group for over 16 years, we pride ourselves in our project management capability, in particular in (i) sourcing quality fitting-out materials from our suppliers and engaging suitable subcontractors; (ii) monitoring the quality of works in each project; and (iii) completing our projects on time and efficiently. Taking into consideration the daily operation such as implementing and supervising our works in efficient and timely manners, our Directors are of the view that our high calibre management team plays a vital role in our Group’s historical success and future potential growth. Our executive Directors and senior management have extensive industry knowledge, project management experience and industry expertise in the fitting-out industry. We believe that the combination of our management’s collective expertise and knowledge of the industry, together with our experienced employees, have been, and will continue to be, our valuable assets. For details of the experience of our Directors and senior management, please refer to the section headed “Directors, senior management and employees” in this document.

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BUSINESS STRATEGIES AND FUTURE PLANS

We aim to further strengthen our market position in the fitting-out industry in Hong Kong by pursuing the following strategies. For further details on how we intend to implement the below business strategies, please refer to the section headed “Future plans and [REDACTED]” in this document.

Expanding our market share through undertaking more sizeable fitting-out projects

According to the Ipsos Report, the total gross output value of the fitting-out industry is forecasted to increase from approximately HK\$31.3 billion to approximately HK\$39.2 billion at a CAGR of 5.8% from 2018 to 2022 due to the expected growth in both residential and commercial fitting-out industry. During the Track Record Period, fitting-out services contributed approximately 99.4%, 99.9% and 100.0% of our revenue for FY2015/16, FY2016/17 and FY2017/18, respectively. We intend to expand our market share through undertaking more sizeable fitting-out projects with contract sum ranging from approximately HK\$100 million to HK\$150 million per project with an aim to generate strong revenue stream. With our established reputation and proven track record in the fitting-out industry, we believe we are well-positioned to undertake more sizeable fitting-out projects in Hong Kong to cater for the emerging business opportunities driven by the forecasted growth in the industry. Our Directors take the view that we can achieve this through (i) strengthening our financial position; and (ii) expanding our workforce.

Strengthening our financial position

We believe it is of paramount importance to maintain financially sound and stable in order to take on extra sizeable fitting-out projects as the upfront costs will tie up our resources. Our Directors believe that we can strengthen our financial position through reserving cash for our projects and minimising interest cost expenses.

The upfront costs of our projects generally include subcontracting fees and costs of materials. We target to undertake sizeable projects with contract sum ranging from approximately HK\$100 million to HK\$150 million per project. These sizeable projects are generally cashflow demanding. Based on our operation history during the Track Record Period, a sizeable project with total contract sum ranging from HK\$100 million to HK\$150 million with a new customer generally requires us to pay upfront costs representing approximately 10% of the total contract sum before such costs can be recovered from our customers after a period of approximately 3 to 4 months. We believe [REDACTED] from the [REDACTED] will strengthen our available financial resources to satisfy the requirements for the upfront costs of our projects in the future and allow us to undertake more sizeable projects.

In addition, although we were only required to obtain a performance bond from a bank under one of our projects in order to secure our due and timely performance during the Track Record Period, as at the Latest Practicable Date, we had submitted a tender for a residential development fitting-out project with a new customer, being a subsidiary of a property

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development and investment group listed on the Stock Exchange, with original tender contract sum amounting to approximately HK\$129.0 million, which, if our tender bid were successful, would require us to obtain a performance bond amounting to approximately HK\$12.9 million, representing approximately 10% of the original contract sum. Our Directors therefore consider that if we intend to expand our market share through undertaking more sizeable fitting-out projects, in particular from new customers, we may inevitably encounter tender/quotation invitations that require us to obtain performance bonds to secure our performance and it will be optimal to reserve our cash for projects of this kind in this regard.

During the Track Record Period, we have become increasingly more reliant on our bank borrowings for financing our business operations. As at 31 March 2016, 2017, 2018 and 30 April 2018, our bank borrowings amounted to HK\$15.2 million, HK\$30.4 million, HK\$33.6 million and 35.9 million, respectively, with effective interest rates of bank borrowings ranging from HKD Prime Rate minus 0.5% to HKD Prime Rate plus 0.5% per annum, flat rate of 4.2% and flat rate of 4.8%, while our interest paid on our bank borrowings for FY2015/2016, FY2016/17 and FY2017/18 amounted to approximately HK\$1.2 million, HK\$1.0 million and HK\$1.7 million, respectively. As at 30 April 2018, we had approximately HK\$7.0 million of unutilised banking facilities. Given the anticipated increase in interest rates, we expect interest incurred from our bank borrowings will continue to surge at the same gearing level. Our Directors therefore consider that it will be beneficial for us to minimise our future interest cost expenses through repaying our existing bank borrowings.

Expanding our workforce

As at the Latest Practicable Date, we had 67 full-time employees, of which 39 were from our project department comprising 10 project managers and 29 site supervisors. Limited by the manpower of our current project management team, in particular project managers and site supervisors who supervise our subcontractors at the project sites, we believe it is crucial to expand our in-house team of staff in order to cater for a larger number of sizeable fitting-out projects to be undertaken by us. In addition, although we strategically subcontract on-site labour intensive works to our subcontractors in order to optimise our business operation, our Directors consider that going forward, depending on the project nature and the particular customer, it may be beneficial for us to carry out the labour intensive works using our own direct labour resources rather than subcontracting. Our Directors consider that we may be able to achieve a higher profit margin for our projects through using our own labour resources rather than through subcontracting since we have more control as to the profit markup.

Continue to emphasise and maintain high standards of project planning, management and implementation

We pride ourselves in our project management capability and maintain overall project management and implementation at our project sites. We will continue to collaborate with our subcontractors in our pursuit of overall project quality. More importantly, we will continue to apply our systematic approach to project management to further standardise and streamline different areas of our operations. We believed that with an expanded team of project

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management professionals, we are well-positioned to enhance the project planning and management process so that we can closely monitor various activities at the project site as well as the resources required at different stages of the project. In addition, our professional team will ensure that our projects are completed in strict adherence to project timetables and specifications and within the budget. We will also continue to implement strict quality control measures to monitor our product quality and workmanship throughout the entire process. We believe that our ability to maintain high standard services will improve customer comfort and satisfaction and in turn enhance our capability to compete with other industry peers in the future.

Adhere to prudent financial management to ensure sustainable growth and capital sufficiency

We will continue to closely monitor our capital and cash positions and carefully manage key areas such as subcontracting fees and cash flow. In the process of identifying and capturing emerging opportunities, we will continue to focus on projects on a selective and prudent basis which are profitable and sizeable in nature. In addition, we will continue to focus on our internal control system to maintain adequate cash flow for our ongoing capital requirements and to achieve maximum cost savings.

OUR PRINCIPAL BUSINESS AND BUSINESS MODEL

Fitting-out services

Our fitting-out services cover both (i) fitting-out works conducted on new buildings; and (ii) interior renovation works on existing buildings that involve upgrades, makeovers and demolition of existing works. Our fitting-out services are mainly provided for residential and commercial properties in Hong Kong on a project basis. Our fitting-out projects are awarded through either competitive tenders or quotation invitations. We offer an array of fitting-out services such as ceiling, metal and glass works, as well as installation of built-in furniture, timber flooring, kitchen cabinetries and timber doors. The installation of timber flooring, kitchen cabinetries and timber doors under our fitting-out services portfolio are generally provided for new residential buildings. Timber flooring fitting-out services mainly include supply and installation of timber flooring and skirting. Kitchen cabinetry installation services mainly include supply and installation of kitchen cabinetries and relevant kitchen materials such as sinks and hook rails. Timber door installation services mainly include supply and installation of timber doors, doorframes, doorframe lines and relevant materials such as door holdfasts, door hinges and doorknobs.

We pride ourselves in our project management capability. We strategically subcontract on-site labour intensive works to our subcontractors, while maintaining overall project management and implementation. We act as the project manager and principal coordinator for the works we are responsible for which encompasses planning, coordinating, monitoring and supervising the project from project implementation to completion as well as monitoring rectification of defects during the defects liability period. We assign adequate project managers

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to monitor different aspects of our projects in order to ensure the quality of our subcontractors’ works and adhere to contract specifications and timetable. Depending on the contractual terms, we may also be responsible for assigning adequate safety officers and/or safety supervisors to monitor the safety matters of our projects.

During the Track Record Period and up to the Latest Practicable Date, we had undertaken over 80 fitting-out projects with an aggregate accumulated revenue recognised amounting to over HK\$900 million, and fitting-out services contributed most of our revenue. For FY2015/16, FY2016/17 and FY2017/18, revenue attributable to fitting-out services amounted to approximately HK\$238.8 million, HK\$346.1 million and HK\$560.3 million, representing approximately 99.4%, 99.9% and 100.0% of our total revenue, respectively. Our fitting-out services covered both residential properties and non-residential properties, with a primary focus on residential properties, representing approximately 93.3%, 98.8% and 94.7% of our revenue from fitting-out services for FY2015/16, FY2016/17 and FY2017/18, respectively.

Supply of fitting-out materials

To a lesser extent, we also engage in supply of fitting-out materials upon customers’ requests in Hong Kong. Fitting-out materials supplied included timber products without the provision of corresponding fitting-out services. For FY2015/16, FY2016/17 and FY2017/18, revenue attributable to supply of fitting-out materials amounted to approximately HK\$1.3 million, HK\$0.3 million and nil, representing approximately 0.6%, 0.1% and nil of our total revenue, respectively.

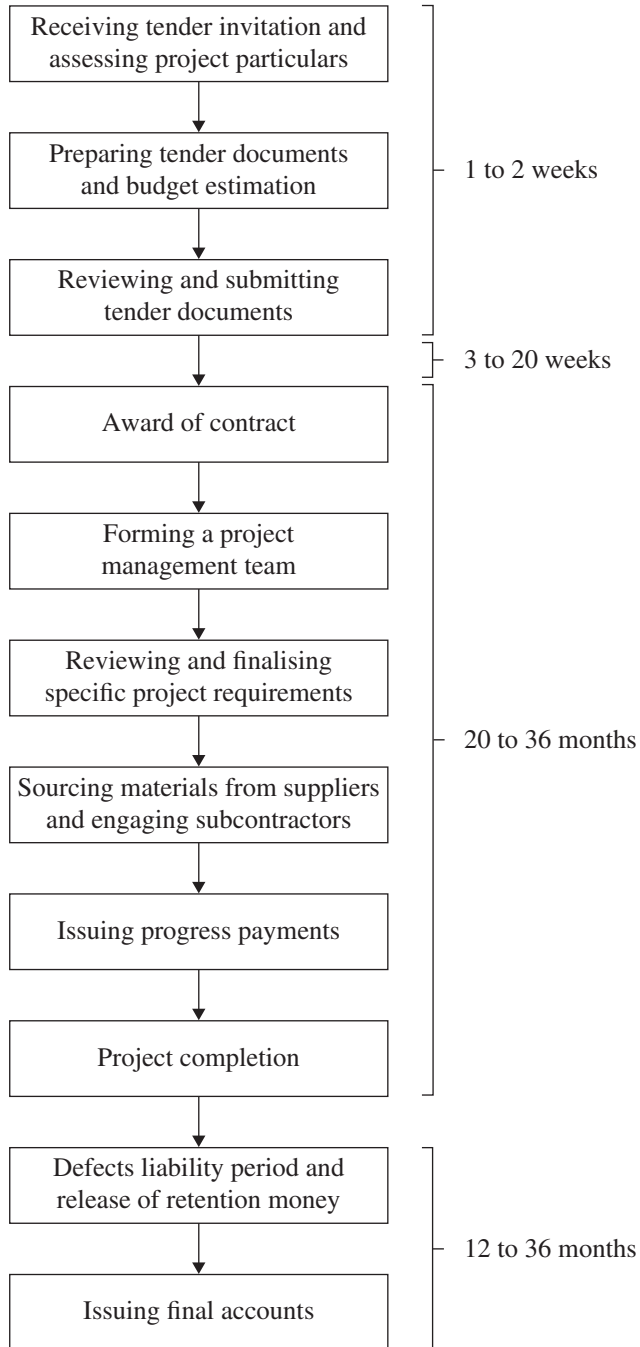
Operation flow

In order to optimise our overall project management on quality and adherence to timetable, we assign our project managers and site supervisors to supervise our subcontractors at the project site. As at the Latest Practicable Date, we had 10 project managers and 29 site supervisors. We engage subcontractors for our project works in the form of quotations. As at the Latest Practicable Date, we had more than 140 suppliers and subcontractors on our internal approved suppliers and subcontractors list. In addition, we procure some fitting-out materials from our suppliers through making purchase orders. With the long-term and stable support from our subcontractors and suppliers, we believe we are able to satisfy our customers’ needs and secure continuing business opportunities.

Our projects are awarded through either competitive tenders or quotation invitations. The execution of our projects involves different stages and the duration of our projects varies depending on customer specifications and project complexity. During the Track Record Period, our fitting-out projects were generally completed within 20 to 36 months from a project being awarded to us.

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The diagram below illustrate the general steps involved in executing our projects awarded through tenders:



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Receiving tender invitation and assessing project particulars

Our customers generally send us tender invitations with general information of the potential projects. We will conduct preliminary assessment on whether the potential projects are commercially viable. If we have accepted the invitation, our customers will provide us with a tender package which specifies the project requirements including, among other things, specifications, schedule of rates, drawings, contact details and closing time of the tender.

Preparing tender documents and budget estimation

We adopt a cost-plus pricing model in order to determine our tender price. When we are determining the estimated cost, we may conduct site visits and/or attend meetings if necessary to have a better understanding of the site conditions and constraints. It generally takes a period of 1 to 2 weeks for us to assess and finalise the tender price and the requisite tender documents. With a view to estimate costs more accurately, it is our practice to invite our approved suppliers and subcontractors to submit preliminary quotations to us when we are preparing our tender submissions. For further details on our pricing strategy, please refer to the paragraph headed “Pricing strategy” in this section.

Reviewing and submitting tender documents

Our executive Directors will review our tender documents before submitting to our potential customers. We may be invited to attend tender interviews to discuss and clarify the work scope and specifications as well as negotiating and finalising the contract terms and contract sum with our customers. If our customer accepts our tender proposal, we will receive a letter of acceptance specifying the commencement date of the project.

Award of contract

During the Track Record Period, our projects are secured through submitting tenders/quotations. The following table sets forth the statistics of our tenders during the Track Record Period:

	FY2015/16	FY2016/17	FY2017/18
Number of tenders/quotations submitted	106	74	91
Number of successful tenders/quotations	30	20	31
Success rate	28.3%	27.0%	38.3%

Note: In the above table, success rate for a financial year is calculated based on the number of contracts awarded (regardless of whether they were awarded in the same financial year or subsequently) in respect of the tenders/quotations submitted during that financial year. As at the Latest Practicable Date, 10 out of 91 tenders/quotations submitted in FY2017/18 had not expired and the results were pending. These tenders/quotations were excluded for the purpose of determining the success rate.

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The number of tenders/quotations we submitted dropped from 106 for FY2015/16 to 74 for FY2016/17 as a result of 2 fitting-out projects being awarded to us with a total contract sum of over HK\$350 million in June 2016. As it was estimated that these sizeable fitting-out projects would tie up most of our resources, we therefore submitted less tenders/quotations for FY2016/17. The number of tenders/quotations subsequently rose to 91 for FY2017/18 as we hired more project managers and site supervisors during FY2017/18 to cater for our projects. We therefore submitted more tenders/quotations during such period. Our Directors are of the view that the higher tenders/quotations success rate recorded in FY2017/18 was mainly due to our more competitive pricing strategy for tenders/quotations submitted in FY2017/18 as compared to FY2016/17 in an attempt to secure more new projects as we were able to allocate more staff to our projects.

It is our strategy to be responsive to our customers' tender/quotation invitations, and actively provide to our customers our tender submissions or reply to quotations upon receipt of their invitations. Our Directors believe that this can enable us to (i) maintain our relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future. Due to such strategy and subject to the tender/quotation strategy of our competitors from time to time, we may experience fluctuations in our overall tender/quotation success rates from period to period. Given our tender/quotation strategy and in view of our performance over the Track Record Period and our projects on hand as at the Latest Practicable Date (please refer to the paragraph headed "Our projects undertaken during the Track Record Period – Projects on hand" in this section), our Directors consider that our overall tender/quotation success rate during the Track Record Period has been satisfactory in general.

Forming a project management team

Upon securing a contract from our customer, we will form a specific project management team generally comprising a project manager and a safety officer/safety supervisor. Our project management team is responsible for overseeing the project execution, identifying on-site issues, taking possible remedial actions and reporting working progress. Our project managers will closely monitor our subcontractors in each project by having regular on-site meeting with our customer and subcontractors. These can ensure that we comply with our customer's requirements and deliver quality work in accordance with the project timetable.

Reviewing and finalising specific project requirements

We are required to carry out fitting-out services according to the designs and work plans as set out in the tender documents as well as our customers' requirements. We are generally not required to offer advice to our customers for their design and work plans. From time to time, our project management team reviews and clarifies the specific project requirements with our customers, gives feedback to our customers and resolves with our customers any problems encountered.

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Sourcing materials from suppliers and engaging subcontractors

We maintain our internal list of approved suppliers and subcontractors, which is updated on an ongoing basis. During the preparation of tendering documents, we obtain preliminary quotations from our fitting-out materials suppliers and subcontractors to facilitate our cost estimations. We generally do not maintain any inventory for fitting-out materials and place purchase orders with our suppliers based on the specific needs of each fitting-out project. Our suppliers would directly deliver and store the fitting-out materials in the corresponding project site. Before the fitting-out materials are delivered, our project managers will perform site visit at the respective factory for inspection.

Issuing progress payments

We submit monthly payment applications to our customers with reference to progress payment summaries certified by the consultants appointed by our customers which indicates the percentage of work done in the preceding month and the corresponding amount payable by our customers. For details of our principal terms of engagement with our customers, please refer to the paragraph headed “Our customers – Principal terms of engagement with our customers”.

Our subcontractors generally submit payment requests to us on a monthly basis based on percentage of work done under the subcontracted works. Taking into account the complexity of the works, our project manager will assess and verify the percentage of work done before settlement. Payments are generally made within 30 days after we approve the subcontractor’s payment request. For details of our principal terms of engagement with our subcontractors, please refer to the paragraph headed “Our suppliers – Principal terms of engagement with our subcontractors”.

Project completion, defects liability period and issuing final accounts by our customers

Upon completing our projects, we will hand over the project to our customers upon which the defects liability period will start. At the end of the defects liability period, our rectifications obligations will be completed and where there is retention money under the contract, our customers will release the remaining retention money to us. After the defects liability period, we will follow up with customers and reach agreement on the final accounts.

OUR PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

All our fitting-out services are provided on a project basis and our fitting-out projects are generally awarded through tenders. The below paragraphs set forth particulars of our fitting-out projects undertaken during the Track Record Period.

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Number of fitting-out projects

The following table sets forth the number of fitting-out projects which contributed revenue to us during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>	<i>Number of projects</i>	<i>HK\$'000</i>
Fitting-out services	70	238,823	69	346,099	64	560,283

Movement in our number of fitting-out projects

The following table sets forth movement in our number of fitting-out projects with revenue contribution during the Track Record Period, with breakdown of new projects commenced during the year and projects completed during the relevant year:

	FY2015/16	FY2016/17	FY2017/18
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
Projects brought forward from previous year	41	41	38
New projects commenced works during the year	29	28	26
Less: Projects completed during the year	29	31	41
Projects carried forward to next year	41	38	23^(Note)

Note: As at 31 March 2018, we had 27 fitting-out projects in our backlog, of which 4 had not yet commenced works. For details of our fitting-out projects in our backlog, please refer to the paragraph headed “Our projects undertaken during the Track Record Period – Backlog” in this section.

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Number of fitting-out projects by range of revenue recognised

For FY2015/16, FY2016/17 and FY2017/18, there were, respectively, 70, 69 and 64 fitting-out projects which contributed approximately HK\$238.8 million, HK\$346.1 million and HK\$560.3 million, respectively to our revenue. The following table sets forth a breakdown of such projects based on their respective range of revenue recognised during the Track Record Period:

	FY2015/16	FY2016/17	FY2017/18
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
Revenue recognised			
HK\$50 million or above	1	1	3
HK\$10 million to below			
HK\$50 million	7	12	9
HK\$1 million to below			
HK\$10 million	11	18	17
Below HK\$1 million	51	38	35
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Total	70	69	64
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Major projects

The following tables set forth particulars of our five largest fitting-out projects for FY2015/16, FY2016/17 and FY2017/18 in terms of revenue contribution:

FY2015/16

Project	Customer	Location	Type of project	Actual/ expected project duration ^(Note 1)	Total contract sum ^(Note 2) (HK\$'000)	Revenue recognised for the year (HK\$'000)	Percentage of our revenue for the year %
Project A	Customer A	Yuen Long	Fitting-out services for a residential development project	December 2014 to December 2017	122,596	62,299	25.9
Project B	Customer B	Sai Kung	Fitting-out services for a residential development project	August 2015 to October 2017	97,410	29,260	12.2
Project C	Customer A	Yuen Long	Fitting-out services for a residential development project	September 2014 to April 2018	38,669	19,592	8.2
Project D	Customer A	Kennedy Town	Fitting-out services for a residential development project	August 2014 to April 2018	24,712	17,968	7.5
Project E	Customer B	Central	Fitting-out services for a commercial building	March 2015 to April 2018	22,276	16,034	6.7

Notes:

1. The project start date is determined based on the date of the letter of award or contract or first invoice to customer and the project completion date is determined based on the date we submitted our payment application to our customer for 100% of our work done or based on our Directors' estimation and may be subject to change taking into account the actual work schedule and variation orders (if any) as at the Latest Practicable Date.
2. The total contract sum represents the original estimated contract sum stated in the contract taking into account subsequent adjustments due to variation orders.

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FY2016/17

Project	Customer	Location	Type of project	Actual/ expected project duration ^(Note 1)	Total contract sum ^(Note 2) (HK\$'000)	Revenue recognised for the year (HK\$'000)	Percentage of our revenue for the year %
Project B	Customer B	Sai Kung	Fitting-out services for a residential development project	August 2015 to October 2017	97,410	55,401	16.0
Project A	Customer A	Yuen Long	Fitting-out services for a residential development project	December 2014 to December 2017	122,596	41,981	12.1
Project F	Customer B	Sai Kung	Fitting-out services for a residential development project	January 2016 to October 2017	26,849	26,849	7.8
Project G	Customer A	Yuen Long	Fitting-out services for a residential development project	February 2016 to August 2018	30,727	26,434	7.6
Project H	Customer A	Nam Cheong	Fitting-out services for a residential development project	June 2016 to December 2018	190,005	22,587	6.5

Notes:

1. The project start date is determined based on the date of the letter of award or contract or first invoice to customer and the project completion date is determined based on the date we submitted our payment application to our customer for 100% of our work done or based on our Directors' estimation and may be subject to change taking into account the actual work schedule and variation orders (if any) as at the Latest Practicable Date.
2. The total contract sum represents the original estimated contract sum stated in the contract taking into account subsequent adjustments due to variation orders.

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FY2017/18

Project	Customer	Location	Type of project	Actual/ expected project duration ^(Note 1)	Total contract sum ^(Note 2) (HK\$'000)	Revenue recognised for the year (HK\$'000)	Percentage of our revenue for the year %
Project H	Customer A	Nam Cheong	Fitting-out services for a residential development project	June 2016 to December 2018	190,005	130,086	23.2
Project I	Customer A	Nam Cheong	Fitting-out services for a residential development project	June 2016 to December 2018	179,261	122,730	21.9
Project J	Customer H	Kau To Shan	Fitting-out services for a residential development project	May 2017 to March 2019	140,300	83,202	14.8
Project K	Customer A	Nam Cheong	Fitting-out services for a residential development project	October 2015 to December 2018	63,097	35,684	6.4
Project L	Customer I	Shatin	Fitting-out services for a residential care centre for the elderly	July 2017 to December 2017	23,702	23,702	4.2

Notes:

1. The project start date is determined based on the date of the letter of award or contract or first invoice to customer and the project completion date is determined based on the date we submitted our payment application to our customer for 100% of our work done or based on our Directors' estimation and may be subject to change taking into account the actual work schedule and variation orders (if any) as at the Latest Practicable Date.
2. The total contract sum represents the original estimated contract sum stated in the contract taking into account subsequent adjustments due to variation orders.

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Backlog

As at 31 March 2016, 2017 and 2018 and the Latest Practicable Date, we had a total of 41, 38, 27, and 29 fitting-out projects in our backlog (including projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced) with revenue derived or expected to be derived from such projects as follows:

	As at 31 March 2016 ^(Note 1)	As at 31 March 2017 ^(Note 2)	As at 31 March 2018 ^(Note 3)	As at the Latest Practicable Date
Number of projects in our backlog	41	38	27	29
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total estimated contract sum ^(Note 4)	819,148	1,146,007	1,112,322	1,183,226
Total revenue attributable to such projects:				
– recognised on or before the date indicated	528,363	651,238	609,361	680,318
– yet to be recognised as at the date indicated	290,785	494,769	502,961	502,908
	<u>819,148</u>	<u>1,146,007</u>	<u>1,112,322</u>	<u>1,183,226</u>

Notes:

1. Out of the 41 projects in our backlog as at 31 March 2016, 11 projects commenced in FY2015/16. The total contract sum of such projects was approximately HK\$233.1 million.
2. Out of the 38 projects in our backlog as at 31 March 2017, 15 projects commenced in FY2016/17. The total contract sum of such projects was approximately HK\$522.2 million.
3. Out of the 27 projects in our backlog as at 31 March 2018, 8 projects commenced in FY2017/18. The total contract sum of such projects was approximately HK\$265.5 million.
4. The total contract sum represents the original estimated contract sum stated in the contract, or where applicable, subsequent adjustments due to variation orders.

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Projects on hand

Our projects on hand represent projects that have commenced but not completed and projects that have been awarded to us but works have not yet been commenced. As at the Latest Practicable Date, we had a total of 29 projects on hand among which 21 were major projects with total contract sum exceeding HK\$10.0 million each and 8 were projects with total contract sum less than HK\$10.0 million each. The aggregate total contract sum of these 8 projects each with total contract sum less than HK\$10.0 million was approximately HK\$34.7 million. The following table sets forth the details of our major projects on hand with total contract sum exceeding HK\$10.0 million each as at the Latest Practicable Date (in descending order by contract sum):

Project	Customer	Location	Type of project	Expected project duration (Note 1)	Total contract sum (Note 2) (HK\$'000)	Revenue recognised during the Track Record Period		
						FY2015/16 (HK\$'000)	FY2016/17 (HK\$'000)	FY2017/18 (HK\$'000)
1	Customer A	Nam Cheong	Fitting-out services for a residential development project	June 2016 to December 2018	190,005	–	22,587	130,086
2	Customer A	Nam Cheong	Fitting-out services for a residential development project	June 2016 to December 2018	179,261	–	22,587	122,730
3	Customer A	Nam Cheong	Fitting-out services for a residential development project	December 2017 to September 2019	177,033	–	–	–
4	Customer H	Kau To Shan	Fitting-out services for a residential development project	May 2017 to March 2019	140,300	–	–	83,202
5	Customer A	Nam Cheong	Fitting-out services for a residential development project	October 2015 to December 2018	63,097	3,468	10,366	35,684
6	Customer B	Tsim Sha Tsui	Fitting-out services for a shopping mall	May 2018 to November 2019	55,103	–	–	–
7	Customer A	Ma On Shan	Fitting-out services for a residential development project	July 2017 to March 2019	44,060	–	–	4,311
8	Customer A	Nam Cheong	Fitting-out services for a residential development project	July 2017 to December 2019	37,984	–	–	–
9	Customer A	Yuen Long	Fitting-out services for a residential development project	February 2016 to August 2018	30,727	–	26,434	3,808
10	Customer B	North Point	Fitting-out services for a residential development project	August 2016 to December 2018	26,991	–	7,167	15,567

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Project	Customer	Location	Type of project	Expected project duration (Note 1)	Total contract sum (Note 2) (HK\$'000)	Revenue recognised during the Track Record Period		
						FY2015/16 (HK\$'000)	FY2016/17 (HK\$'000)	FY2017/18 (HK\$'000)
11	Customer C	Fanling	Fitting-out services for a residential development project	September 2017 to March 2019	26,981	–	–	2,114
12	Customer B	Tai Wai	Fitting-out services for a residential development project	February 2018 to June 2019	26,718	–	–	–
13	Customer A	Ma On Shan	Fitting-out services for a residential development project	September 2017 to March 2019	24,357	–	–	2,383
14	Customer A	Sai Wan	Fitting-out services for a residential development project	April 2016 to June 2018	23,503	–	14,203	7,429
15	Customer A	Tung Chung	Fitting-out services for a residential development project	August 2014 to March 2019	18,132	5,827	11,039	492
16	Customer B	Ma On Shan	Fitting-out services for a residential development project	October 2014 to August 2018	16,815	10,801	3,194	55
17	Customer A	Tuen Mun	Fitting-out services for a residential development project	July 2017 to October 2018	16,043	–	–	10,476
18	Non top five customer	Lei Yue Mun	Fitting-out services for a residential development project	May 2018 to February 2019	15,800	–	–	–
19	Customer C	Ma On Shan	Fitting-out services for a residential development project	April 2015 to August 2018	13,622	8,606	3,355	86
20	Customer A	Yuen Long	Fitting-out services for a residential development project	September 2016 to March 2019	11,568	–	2,880	5,811
21	Customer C	Fanling	Fitting-out services for a residential development project	October 2018 to March 2019	10,736	–	–	–

Notes:

- The project start date is determined based on the date of the letter of award or contract or first invoice to customer or our Directors' estimation and the project completion date is determined based on our Directors' estimation and may be subject to change taking into account the actual work schedule and variation orders (if any) as at the Latest Practicable Date.
- The total contract sum represents the original estimated contract sum stated in the contract taking into account subsequent adjustments due to variation orders.

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LICENCES AND QUALIFICATIONS

As advised by our HK Legal Counsel, there is no particular licence required to be obtained by our Group before we commence provision of fitting-out services except for the relevant business registration. All the necessary licences required for fitting-out projects in which our Group is involved are to be obtained by the relevant property developer and main contractor. Nevertheless, Hoi Sing Decoration and Milieu are registered under the voluntary Subcontractor Registration Scheme of the Construction Industry Council. The following table sets forth particulars of such registrations:

Registrant	Type of registration	Issuing authority	Trade code	Trade specialty	Date of expiry
Hoi Sing Decoration	Registered subcontractor	Construction Industry Council	02.02 Marble, granite and stone work	Marble/ granite work	28 October 2018
			02.05 Shutter/ doors fabrication and installation	Timber doors	
			02.05 Shutter/ doors fabrication and installation	Fire rated door	
			02.11 Renovation and fitting-out	Renovation and fitting-out	
Milieu	Registered subcontractor	Construction Industry Council	02.03 Joinery and carpentry	Wooden flooring	10 April 2019

Based on our Directors’ experience, some of our customers prefer to engage or would only engage subcontractors who are registered under the Subcontractor Registration Scheme of the Construction Industry Council. The Subcontractor Registration Scheme was introduced by the Construction Industry Council in order to build up a pool of capable and responsible subcontractors with specialised skills and strong professional ethics. The registration and the renewal of registration for the Subcontractor Registration Scheme are subject to the satisfaction of certain entry requirements which primarily concern the applicant’s experience and/or qualification in the relevant works. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had satisfied all requirements for the registration and the renewal of registration for the Subcontractor Registration Scheme. Renewal is required every two years. We successfully renewed our aforementioned registration since the registration was first obtained. Our HK Legal Counsel confirmed that he does not foresee any material legal impediment in the renewal of the aforesaid registration by us.

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OUR CUSTOMERS

Characteristics of our customers

Our customers are from the private sector and mainly include (i) property developers; (ii) contractors; and (iii) property owners. Our services are provided on a project basis and we do not enter into long-term agreements with our customers. Credit period with our customers generally ranges from 21 to 30 days after issuance of our invoice. Our customers generally settle our payments by bank transfer or cheque in Hong Kong dollars. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute with our customers.

The following table sets forth a breakdown of our revenue by customer type during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Property developers ^(Note 1)	237,284	98.8	344,264	99.4	424,400	75.8
Contractors	–	–	–	–	89,281	15.9
Property owners	1,539	0.6	1,835	0.5	22,900	4.1
Others ^(Note 2)	1,326	0.6	292	0.1	23,702	4.2
Total	240,149	100.0	346,391	100.0	560,283	100.0

Note:

1. The category “Property developers” includes both property developers and their subsidiaries.
2. The category “Others” comprise transactions with Hoi Sing International which formerly engaged in retail trading of timber flooring and Customer I which engages in provision of residential care services for the elderly. For details, please refer to the paragraph headed “Our customers – Top customers” in this section.

Principal terms of engagement with our customers

The terms of our contracts vary across customers and projects. The major terms of our contracts for fitting-out services and contracts for the supply of fitting-out materials are set out in the below paragraphs.

Contracts for fitting-out services

Contract sum

The agreed contract sum varies across projects depending on the scale and complexity of the works. Depending on the contract terms, some of our customers pay us an advance payment of up to 5% of the total contract sum upon confirmation of award. For further details of our pricing strategy, please refer to the paragraph headed “Pricing strategy” in this section.

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Progress payment

We submit monthly payment application to our customers with reference to progress payment summaries certified by the consultants appointed by our customers which indicate the percentage of work done and the corresponding amount payable by our customers. Credit period with our customers under our fitting-out contracts generally ranges from 21 to 30 days after we issue our invoice.

Retention money

Some of our fitting-out contracts provide that our customers shall be entitled to retain up to 10% of each progress payment, in aggregate subject to maximum retention of 5% of the total contract sum as retention money. Where there is retention money, 50% of the retention money will be released upon completion of the project and the remaining retention money will be released upon expiry of the defects liability period. The completion date is generally agreed between us and our customers and our customers generally do not issue any formal certificate of completion. As at 31 March 2018, retention receivables held by our customers amounted to approximately HK\$4.8 million.

Defects liability period

Our contracts generally provide that we offer a defects liability period of 12 to 36 months depending on the contract terms during which we are responsible for rectifying defects. The defects liability period starts to run once the completion date is agreed between us and our customers. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we received no significant complaint or claim from our customers in the relevant defects liability period of our projects and the cost incurred for remedying defective works was not material.

Variation orders

Our customers may, in the course of project execution, place orders concerning variation to part of the fitting-out services that is necessary for the completion of the project. Such orders are commonly referred to as variation orders. Such orders seek to modify specifications, amount and scope of works stipulated in the original contracts. As a result, the final contract sum may be adjusted in accordance with the variation orders. The principal contract terms and settlement of the variation orders are generally in line with the original contract. Where the works under the variation order is the same or similar to the works prescribed in the contract, the rate of the works under the variation order usually accord with the bills of quantity in the original contract. If there was no equivalent or similar items under the original contract for reference, we will further agree on the rates with our customers.

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For FY2015/16, FY2016/17 and FY2017/18, our total revenue amounted to approximately HK\$240.1 million, HK\$346.4 million and HK\$560.3 million, of which our revenue recognised for variation orders amounted to approximately HK\$8.8 million, HK\$21.1 million and HK\$39.5 million respectively.

Liquidated damages

Our fitting-out contracts generally provide that we shall compensate our customers an amount of liquidated damages per day if we fail to complete the fitting-out services on schedule. To mitigate and minimise our liability in this regard, it is usually agreed that a time extension clause to be inserted into the contract to the effect that time may be extended if project delay is caused or expected as a result of uncontrollable events such as severe weather conditions. We have not been required to pay any material liquidated damages in our projects undertaken during the Track Record Period and up to the Latest Practicable Date.

Performance bonds

During the Track Record Period, we were not required to obtain performance bonds for our projects. As at the Latest Practicable Date, we had been awarded a contract at an original contract sum of approximately HK\$15.8 million under which we would be required to obtain a performance bond from a bank in order to secure our due and timely performance. The amount of performance bond to be obtained amounted to 10% of the original contract sum and is expected to be obtained in or around August 2018 which will be financed by further drawdown of banking facilities.

Contracts for the supply of fitting-out materials

The agreed contract sum of contracts for the supply of fitting-out materials depends on the quantities and dimensions of the timber products supplied under the contracts. Some of our contracts provide that a 30% deposit shall be paid by our customer, 69% of the contract sum be paid after delivery and 1% of the contract sum shall be retained for a period of 12 months after delivery. Credit period granted to our customer under these contracts is generally 30 days.

Top customers

For FY2015/16, FY2016/17 and FY2017/18, our largest customer accounted for 67.7%, 65.9% and 65.4% of our total revenue, respectively, while our five largest customers in aggregate accounted for 99.2%, 99.6% and 97.0% of our total revenue, respectively. To the best of our Directors’ knowledge, none of our Directors or their respective close associates or our Shareholders who own more than 5% of the issued share capital of our Company had any interest in our five largest customers during the Track Record Period.

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The following tables set forth details of our five largest customers for FY2015/16, FY2016/17 and FY2017/18:

FY2015/16

Rank	Customer	Customer type	Service provided by our Group	Business relationship since	Typical credit terms and payment method	Revenue <i>HK\$'000</i>	% of total revenue
1	Customer A ^(Note 1)	Property developer	Fitting-out services	2005	30 days; Bank transfer	162,677	67.7
2	Customer B ^(Note 2)	Property developer	Fitting-out services	2012	21 to 30 days; Cheque	64,960	27.1
3	Customer C ^(Note 3)	Property developer	Fitting-out services	2013	30 days; Cheque	8,972	3.7
4	Hoi Sing International ^(Note 4)	Other	Supply of fitting-out materials	2015	30 days; Cheque	926	0.4
5	Customer E ^(Note 5)	Property developer	Fitting-out services	2014	30 days; Cheque	675	0.3
Five largest customers combined						238,210	99.2
All other customers						1,939	0.8
Total revenue						240,149	100.0

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FY2016/17

Rank	Customer	Customer type	Service provided by our Group	Business relationship since	Typical credit terms and payment method	Revenue <i>HK\$'000</i>	% of total revenue
1	Customer A ^(Note 1)	Property developer	Fitting-out services	2005	30 days; Bank transfer	228,119	65.9
2	Customer B ^(Note 2)	Property developer	Fitting-out services	2012	21 to 30 days; Cheque	112,757	32.5
3	Customer C ^(Note 3)	Property developer	Fitting-out services	2013	30 days; Cheque	3,388	1.0
4	Customer F ^(Note 6)	Property owner	Fitting-out services	2016	30 days; Cheque	352	0.1
5	Hoi Sing International ^(Note 4)	Other	Supply of fitting-out materials	2015	30 days; Cheque	261	0.1
Five largest customers combined						344,877	99.6
All other customers						1,514	0.4
Total revenue						346,391	100.0

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FY2017/18

Rank	Customer	Customer type	Service provided by our Group	Business relationship since	Typical credit terms and payment method	Revenue HK\$'000	% of total revenue
1	Customer A ^(Note 1)	Property developer	Fitting-out services	2005	30 days; Bank transfer	366,322	65.4
2	Customer H ^(Note 7)	Contractor	Fitting-out services	2017	30 days; Bank transfer	83,202	14.8
3	Customer B ^(Note 2)	Property developer	Fitting-out services	2012	21 to 30 days; Cheque	55,878	10.0
4	Customer I ^(Note 8)	Other	Fitting-out services	2017	30 days; Cheque	23,702	4.2
5	Customer J ^(Note 9)	Property owner	Fitting-out services	2017	30 days; Cheque	14,398	2.6
Five largest customers combined						543,502	97.0
All other customers						16,781	3.0
Total revenue						560,283	100.0

Notes:

- Customer A include subsidiary(ies)/related company(ies) of a company listed on the Stock Exchange, the principal activities of which include development of and investment in properties.
- Customer B include subsidiary(ies)/related company(ies) of a company listed on the Stock Exchange, the principal activities of which include development of and investment in properties.
- Customer C is a subsidiary of a company listed on the Stock Exchange, the principal activities of which include development of and investment in properties.
- Hoi Sing International is a related party of our Group. For details of our transactions with Hoi Sing International, please refer to the section headed “Financial information – Related party transactions”.
- Customer E is a subsidiary of a company listed on the Stock Exchange, with principal activities in the property, transportation, hospitality and investment sectors.
- Customer F is an individual customer who engaged us for providing fitting-out services for a residential home.

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7. Customer H is a private company in Hong Kong which engages in provision of interior design and fitting-out services.
8. Customer I is a private company in Hong Kong which engages in provision of residential care services for the elderly.
9. Customer J is an individual customer who engaged us for providing fitting-out services for a residential home.

Customer concentration

Our Directors are of the view that based on the Ipsos Report, customer concentration within the fitting-out industry is not uncommon and that our business is sustainable despite our customer concentration during the Track Record Period for the following reasons:

A small number of projects can contribute to a substantial amount of our revenue

During the Track Record Period, revenue generated from Customer A, our largest customer amounted to approximately HK\$162.7 million, HK\$228.1 million and HK\$366.3 million, representing approximately 67.7%, 65.9% and 65.4% of our revenue for FY2015/16, FY2016/17 and FY2017/18, respectively. Such revenue was attributable to 50 fitting-out projects from Customer A during the Track Record Period. As such, it is not uncommon for a single project to have a relatively large contract sum such that a small number of projects can contribute to a substantial amount of our revenue.

Sizeable fitting-out projects are concentrated among top 10 property development in Hong Kong

Three of our major customers during the Track Record Period are subsidiaries of reputable local property developers in Hong Kong. According to the Ipsos Report, the respective holding companies of Customer A, Customer B and Customer C are among the top 10 property developers in Hong Kong based on their revenue derived from property development in 2017. According to the Ipsos Report, sizeable fitting-out projects with large contract sums are concentrated among the top 10 property development in Hong Kong. Hence, if we decide to undertake a certain project with large contract sum, the relevant customer may easily become our largest customer in terms of revenue contribution to us.

Revenue concentration among our major customers was a result of careful selection of our projects from quality customers

We are an active player in the fitting-out industry. During the Track Record Period, we experienced a strong demand for our services from a range of customers including tender invitations from our three largest customers, as evidenced by the number of invitations for tenders/quotations that we received. For FY2015/16, FY2016/17, FY2017/18, we received over 500 invitations for tenders/quotations and we submitted tenders for approximately 55% of these invitations. Our Directors are of the view that our active participation in our potential customers' tendering process may reinforce our presence in the industry. As we

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strive to maintain a good balance of the factors we consider under our pricing strategy as more detailed in the paragraph headed “Our customer – Pricing strategy” in this section when considering whether to submit a tender or reply to a quotation for a potential project, including in particular, (a) the size of the project; (b) reputation of the potential customer; (c) our past working relationship with the potential customer; and (d) the financial strength and repayment record of the potential customer, revenue concentration among our major customers during the Track Record Period reflects the result of careful selection of our projects from quality customers. Our Directors believe that in the event that project engagement with any of our major customers is substantially reduced, our Group would have the capacity to handle projects from other customers in view of the expected growth of demand for fitting-out services in Hong Kong according to the Ipsos Report.

Downward trend on reliance on our major customers

We have demonstrated a downward trend on reliance on our major customers and at the same time achieved business growth during the Track Record Period as we have taken steps to expand our customer base. Revenue contributed by our top five customers experienced slight drop from 99.6% for FY2016/17 to 97.0% for FY2017/18 amid our strong growth in total revenue from HK\$346.4 million to HK\$560.3 million during the same period. Revenue contributed by Customer A experienced a downward trend from 67.7% for FY2015/16 to 65.9% for FY2016/17 and to 65.4% for FY2017/18. Further, our revenue contribution from Customer B decreased from approximately 32.5% for FY2016/17 to 10.0% in FY2017/18. In addition, we were able to establish our initial business relationship with Customer H and Customer I in FY2017/18, who both became our top five customers during the same period. Our business relationship with major customers, industry experience and proven track record are essential to our major customers to ensure that we are capable of completing their projects on time and in accordance with their requirements. With our presence in the fitting-out industry, our Directors believe that we are able to extend our services to other customers.

Customers who were also our suppliers

Contra-charge arrangements with our customers

During the course of our business, there may be occasions where our customers pay on our behalf for fitting-out materials used under our projects and subsequently deduct such payments when settling our project payments. Such arrangements are commonly known as “contra-charge arrangement” and the amounts involved are known as “contra-charge”. According to the Ipsos Report, contra-charge arrangements are common in the industry.

During the Track Record Period, we had contra-charge arrangements with some of our customers. In this context, we regard such customers as our suppliers as well. Such contra-charge generally included purchase cost of fitting-out materials used under our fitting-out projects. Upon our request, or at the discretion of our customers, our customers may purchase fitting-out materials on our behalf, and such amounts are subsequently settled under

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contra-charge arrangements. Effectively, the payments due to us from our customers under our projects will be settled after netting off such contra-charge amounts. For FY2015/16, FY2016/17 and FY2017/18, our contra-charge incurred amounted to approximately HK\$0.4 million, HK\$1.1 million and HK\$52.4 million, representing approximately 0.2%, 0.4% and 10.5% of our total direct costs for the same period, respectively.

During the Track Record Period, as confirmed by our Directors, we had no material dispute with our customers as regards the contra-charge arrangements and the contra-charge amounts involved. In addition, as we settled the contra-charge by netting off with the payments due from our customers, both cash inflows from the project work done and cash outflows from the purchase of fitting-out materials were reduced by the same amount. Therefore, the contra-charge arrangements had no material impact on our cashflow positions during the Track Record Period.

The following table sets forth the particulars of the material contra-charge arrangements we had with our top customers during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Customer A						
Revenue derived and percentage of our total revenue	162,677	67.7	228,119	65.9	366,322	65.4
Contra-charge amounts and percentage of our total direct costs	407	0.2	842	0.3	847	0.2
Customer B						
Revenue derived and percentage of our total revenue	64,960	27.1	112,757	32.5	55,878	10.0
Contra-charge amounts and percentage of our total direct costs	26	0.0	262	0.1	793	0.2
Customer H						
Revenue derived and percentage of our total revenue	_(Note 1)	_(Note 1)	_(Note 1)	_(Note 1)	83,202	14.8
Contra-charge amounts and percentage of our total direct costs	_(Note 1)	_(Note 1)	_(Note 1)	_(Note 1)	50,779 ^(Note 2)	10.2

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Notes:

1. We did not have contra-charge arrangements with Customer H for FY2015/16 and FY2016/17.
2. Customer H was one of our top customers and one of our top suppliers during the Track Record Period. Customer H engaged us as a subcontractor for providing fitting-out services for a new residential property under one project at a total contract sum of HK\$120.0 million. For FY2017/18, revenue attributable to Customer H was approximately HK\$83.2 million while our purchases from Customer H was approximately HK\$50.8 million. The amount of purchases from Customer H was the result of payments made by Customer H on our behalf for (i) marble works performed by other subcontractors designated and engaged by Customer H; and (ii) fitting-out materials sourced by Customer H directly. We believe Customer H engaged those subcontractors directly as those subcontractors had previous business relationship with Customer H and were able to offer a more competitive price for performing the marble works. Nevertheless, we maintained the overall project management and implementation under the project. As the payments made by Customer H on our behalf under such project was substantial, Customer H became one of our major suppliers for FY2017/18.

Collection of trade receivables and retention receivables

We are exposed to risks in relation to collection of progress payments and retention money. For details of our credit risk in this connection, please refer to the section headed “Risk factors – If we are unable to receive progress payments on time and in full, or that retention money is not fully released to us after expiry of the defects liability period, our liquidity and financial position may be materially and adversely affected” in this document.

In order to minimise such credit risk and our financial loss, most of our customers are required to settle payment within 30 days after issuance of our invoice. We would monitor and evaluate overdue payments on a case-by-case basis and consider appropriate follow-up actions such as reissuing invoices.

As at 31 March 2016, 2017 and 2018, the aggregate amounts of trade and retention receivables amounted to approximately HK\$24.4 million, HK\$37.0 million and HK\$26.5 million, respectively. Please also refer to the section “Financial information – Discussion on selected statement of financial position items – Trade and other receivables” for a further discussion and analysis on our trade receivables and retention receivables and our trade receivables turnover days during the Track Record Period” in this document.

Sales and marketing

We do not maintain a sales and marketing team. During the Track Record Period, we secured new businesses mainly through direct invitation for tendering by customers, which is considered by our Directors to be attributable to our proven track record and presence in the fitting-out industry.

Our Directors are of the view that tender/quotation invitations from potential customers within the private sector are largely based on reputation and proven track record of a contractor in the industry. We therefore do not actively promote ourselves through formal sales and marketing activities.

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Our executive Directors and senior management actively explore new business opportunities by identifying any new projects in Hong Kong through social discussion with other market participants. We also maintain stable business relationships and timely communication with our customers and the architect and consultants in the construction industry so as to keep abreast of market trend and potential business opportunities.

Pricing strategy

We adopt a cost-plus pricing model in order to determine our tender/quotation price. We take into account several factors such as (i) the cost; (ii) our overheads; (iii) the size of the project; (iv) our capacity; (v) our liquidity; (vi) our past working relationship with the potential customer; (vii) the reputation of the potential customer; and (viii) the financial strength and repayment record of the potential customer. We would then calculate the final cost estimation and price the bills of quantity.

In order to mitigate our exposure to risk of inaccurate estimation and cost overrun, the pricing of our projects is overseen by our executive Directors, whose background and experience are set out in the section headed “Directors, senior management and employees” in this document. Our Directors confirm that during the Track Record Period, we did not experience any material loss-making contracts.

Seasonality

Our Directors are of the view that our Group’s business operation is not subject to any significant seasonality.

OUR SUPPLIERS

Characteristics of our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue to carry on our business mainly include (i) our subcontractors who generally provide installation or other technical services such as plaster, ceiling, glass and metal works as well as installation of timber flooring, kitchen cabinetries and timber doors; (ii) suppliers of materials required for performing our fitting-out services such as finished furniture products, timber products, glass and metal; and (iii) suppliers of other miscellaneous services such as rental of machinery and equipment (which mainly include scaffold for use at our fitting-out worksites), transportation services and consultancy services (which mainly include outsourced safety consultancy services). While our subcontractors may during the course of performing their services supply certain materials, our material suppliers do not provide any installation or technical services and only supply materials directly sourced by us.

As at the Latest Practicable Date, we had over 140 suppliers and subcontractors on our internal approved suppliers and subcontractors list. Both potential and approved suppliers are

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shortlisted and reviewed from time to time with reference to certain criteria including, among other things, (i) price; (ii) product quality; (iii) punctuality in delivery; and (iv) past business relationship. We generally maintain multiple materials suppliers to avoid over-relying on a single or certain suppliers. When we place purchase orders for materials, unless our customers require us to source from specific suppliers, we select suppliers from our approved list based on factors such as the specific project requirements and the price quotation. When we receive tender documents or quotation invitations from our potential customers, we will seek preliminary quotations from our selected suppliers and, once being awarded the project, we will confirm the final price of materials with our suppliers. We engage our materials suppliers in the form of quotations and we do not enter into any long-term supply agreements with our suppliers.

Credit period with our suppliers generally ranges from 0 to 30 days from the date invoice is issued. We generally settle the payables to our suppliers by cheque and bank transfer in Hong Kong dollars. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage or delay in our supplier’s delivery of materials which would significantly disrupt our works.

The following table sets forth a breakdown of our total purchases by type during the Track Record Period:

	FY2015/16		FY2016/17		FY2017/18	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontracting charges	134,512	65.1	203,076	70.6	276,886	58.7
Materials	69,263	33.5	82,561	28.7	192,740	40.8
Rental of machinery and equipment	954	0.5	45	0.0	55	0.0
Other direct costs	1,859	0.9	2,071	0.7	2,224	0.5
Total purchases	206,588	100.0	287,753	100.0	471,905	100.0

Please refer to the section headed “Financial information” in this document for a discussion of the fluctuation in our purchases from our suppliers during the Track Record Period as shown in the above table as well as the relevant sensitivity analyses in this connection.

Top suppliers (including our subcontractors)

For FY2015/16, FY2016/17 and FY2017/18, our largest supplier accounted for 16.7%, 14.2% and 12.7% of our total purchases, respectively, while our five largest suppliers (including our subcontractors) in aggregate accounted for 55.1%, 60.3% and 43.5% of our total purchases, respectively. To the best of our Directors’ knowledge, save as disclosed below, none of our Directors or their respective close associates or our Shareholders who own more than 5% of the issued share capital of our Company had any interest in our five largest suppliers during the Track Record Period.

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The following tables set forth the breakdown of our five largest suppliers (including our subcontractors) in FY2015/16, FY2016/17 and FY2017/18:

FY2015/16

Rank	Supplier	Materials/ services supplied	Business relationship since	Typical credit terms and payment method	Purchases <i>HK\$'000</i>	% of total purchases
1	Supplier A ^(Note 1)	Subcontracting of ceiling and painting works	2009	30 days; Bank transfer, Cheque	34,407	16.7
2	Supplier B ^(Note 2)	Subcontracting of fitting-out services	2015	30 days; Cheque	20,500	9.9
3	Haicheng Huizhou ^(Note 3)	Supply of finished furniture products and timber products	2015	30 days; Bank transfer	20,274	9.8
4	Supplier D ^(Note 4)	Supply of timber products and subcontracting of timber works	2015	30 days; Bank transfer	19,617	9.5
5	Supplier E ^(Note 5)	Supply of finished furniture products and metal	2015	30 days; Bank transfer, Cheque	18,973	9.2
Five largest suppliers combined					113,771	55.1
All other suppliers					92,817	44.9
Total purchases					206,588	100.0

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FY2016/17

Rank	Supplier	Materials/ services supplied	Business relationship since	Typical credit terms and payment method	Purchases <i>HK\$'000</i>	% of total purchases
1	Supplier B ^(Note 2)	Subcontracting of fitting-out services	2015	30 days; Cheque	40,956	14.2
2	Haicheng Huizhou ^(Note 3)	Supply of finished furniture products and timber products	2015	30 days; Bank transfer	39,744	13.8
3	Supplier D ^(Note 4)	Supply of timber products and subcontracting of timber works	2015	30 days; Bank transfer	35,087	12.2
4	Supplier A ^(Note 1)	Subcontracting of ceiling and painting works	2009	30 days; Bank transfer, Cheque	35,087	12.2
5	Supplier F ^(Note 6)	Supply of glass and subcontracting of glass works	2014	30 days; Bank transfer, Cheque	22,599	7.9
Five largest suppliers combined					<u>173,473</u>	<u>60.3</u>
All other suppliers					<u>114,280</u>	<u>39.7</u>
Total purchases					<u><u>287,753</u></u>	<u><u>100.0</u></u>

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FY2017/18

Rank	Supplier	Materials/ services supplied	Business relationship since	Typical credit terms and payment method	Purchases <i>HK\$'000</i>	% of total purchases
1	Supplier A ^(Note 1)	Subcontracting of ceiling and painting works	2009	30 days; Bank transfer, Cheque	60,156	12.7
2	Customer H ^(Note 7)	Contra-charge amounts for marble works and fitting-out materials paid on our behalf	2017	–	50,779	10.8
3	Supplier E ^(Note 5)	Supply of finished furniture products and metal	2015	30 days; Bank transfer, Cheque	43,065	9.1
4	Supplier G ^(Note 8)	Supply of finished furniture products and subcontracting of fitting-out services	2013	30 days; Bank transfer, Cheque	26,486	5.6
5	Supplier D ^(Note 4)	Supply of timber products and subcontracting of timber works	2015	30 days; Bank transfer	24,876	5.3
Five largest suppliers combined					<u>205,362</u>	<u>43.5</u>
All other suppliers					<u>266,543</u>	<u>56.5</u>
Total purchases					<u><u>471,905</u></u>	<u><u>100.0</u></u>

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Notes:

1. Supplier A is a private company in Hong Kong, the principal activities of which include provision of ceiling and painting works.
2. Supplier B is a private company in Hong Kong, the principal activities of which include provision of fitting-out services.
3. Haicheng Huizhou is a related party of our Group. For details of our transactions with Haicheng Huizhou, please refer to the section headed “Financial information – Related party transactions”.
4. Supplier D is a private company in Hong Kong, the principal activities of which include supply of timber products and provision of timber works.
5. Supplier E are private companies in the PRC, the principal activities of which include supply of finished furniture products and metal.
6. Supplier F is a private company in Hong Kong, the principal activities of which include supply of glass and provision of glass works.
7. Customer H is one of our top customers and one of our top suppliers during the Track Record Period. For details, please refer to the paragraph headed “Our customers – Customers who were also our suppliers” in this section.
8. Supplier G is a private company in Hong Kong, the principal activities of which include supply of finished furniture products and provision of fitting-out services.

Subcontracting arrangement

We pride ourselves in our project management capability and we strategically subcontract on-site labour intensive works to our subcontractors, while maintaining overall project management and implementation. Our Directors believe that it is not uncommon in the market for fitting-out contractors to engage subcontractors to perform all on-site labour intensive or skilled works as it allows for a low fixed cost overhead and allows us to more effectively manage our projects by making use of others’ established expertise and skill-set on a project basis.

As at the Latest Practicable Date, we had 50 subcontractors on our internal approved subcontractors list. Both potential and approved subcontractors are shortlisted and reviewed from time to time with reference to certain criteria including, among other things, (i) price; (ii) work quality; (iii) the reputation of the subcontractor; (iv) adherence to timetable; and (v) past business relationship. We generally maintain multiple subcontractors for our projects to avoid over-relying on a single or certain subcontractors. Our customers generally do not contractually restrict us in selecting our subcontractors. We select subcontractors from our approved list based on factors such as the specific project requirements and the price quotation. We engage our subcontractors in the form of quotations and we do not enter into any long-term subcontracting agreements with our subcontractors.

We are responsible to our customers for the performance of our subcontractors. We may also be liable to any potential employees’ compensation claims and personal injuries claims from

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the employees of our subcontractors. Therefore, when a project is in the stage of implementation, our project managers will closely supervise the progress and quality of works undertaken by our subcontractors. Furthermore, our safety officers and/or safety supervisors will ensure that our subcontractors comply with all applicable safety requirements.

Principal terms of engagement with our subcontractors

We generally enter into contracts with our subcontractors upon securing contracts from our customers. The terms of our contracts vary across subcontractors and projects but generally mirror the terms of the main contracts with our customers. The major terms of our fitting-out contracts with our subcontractors are set out in the below paragraphs.

Contract sum

The agreed contract sum varies across projects depending on the scale and complexity of the works we are required to perform under the main contract with our customers.

Progress payment

Our subcontractors submit payment request to us on a monthly basis according to percentage of work done under the subcontracted works. Credit period with our subcontractors is generally 30 days after their invoice is issued to us.

Retention money

Although some of our main contracts with our customers provide that our customers shall be entitled to retention money, we generally do not in turn retain any part of the progress payments made to our subcontractors as retention money.

Defects liability period

Depending on the terms of the main contracts with our customers, our subcontractors offer a defects liability period of 12 to 36 months during which our subcontractors are responsible for rectifying defects.

Variation orders

The principal contract terms and settlement of the variation orders are generally in line with those under the main contracts with our customers.

Basis of selecting subcontractors

We evaluate our subcontractors taking into account their quality of services, skills and technique, credit-worthiness, pricing, availability of resources in accommodating delivery requirement as well as their reputation and track records. Based on these factors, we select and

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maintain an internal list of approved subcontractors and such list is updated on an ongoing basis. When subcontractors are needed for a particular project, we select subcontractors from our list based on their experience relevant to the particular project as well as their availability and fee quotations.

Control over subcontractors

We are liable to our customers for the performance and the quality of work done by our subcontractors. In general, works performed by our subcontractors are inspected and monitored by our on-site personnel based on our quality management system, environmental management system and occupational health and safety management system. For further information on our measures and management systems in relation to work quality, occupational safety and environmental protection, please refer to the paragraphs headed “Quality control”, “Occupational health and safety”, and “Environmental compliance” in this section.

QUALITY CONTROL

Our fitting-out projects are monitored by a project management team comprising a project manager and a safety officer/safety supervisor, who are responsible for the overall quality assurance of the project. We generally only engage subcontractors on our approved list of subcontractors based on the nature and complexity of each project and the availability of our resources at the time. Our project management team in each project generally conducts regular on-site inspections and arranges for regular meetings with our subcontractors to address material issues such as quality issues, to ensure sufficient resources are allocated for each project, and that the works executed at each stage meet the requirements of our customers. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaint or request for any kind of material compensation from our customers due to quality issue of our performance and our subcontractors’ performance.

ENVIRONMENTAL COMPLIANCE

Our Group’s business is subject to the applicable laws and regulations relating to environmental protection. For details, please refer to the section headed “Regulatory overview” in this document.

Our Directors believe that it is essential for us to be environmentally responsible and to meet our customers’ demands in environmental protection and at the same time meeting the community’s expectation for a healthy living and working environment. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group did not have any material violation of the relevant contract terms on environmental protection which led to claims by our customers.

In order to comply with the applicable environmental protection laws and regulations, we have established an environmental management policy to ensure proper management of environmental protection and compliance of environmental laws and regulations by both our

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employees and workers of the subcontractors on areas such as treatment of hazardous materials, noise control, waste management and dust and fumes management.

Set out below are our measures and work procedures required to be followed by our employees and workers of our subcontractors in respect of environmental protection compliance:

Area	Environmental protection guidelines
Treatment of hazardous materials	<ul style="list-style-type: none"> Any hazardous chemical used shall be disposed of in accordance with the relevant laws and regulations such as the Air Pollution Control Ordinance, the Water Pollution Control Ordinance and the Waste Disposal Ordinance. Adequate ventilation shall be provided where chemicals or cleaning agents are used.
Noise control	<ul style="list-style-type: none"> Using powered mechanical equipment during the restricted hours is prohibited.
Waste management	<ul style="list-style-type: none"> Provision of collection points on the site at which all empty cans, packing and other receptacles capable of holding water shall be deposited and shall provide for frequent and regular collection and removal of such articles from the site. Minimise the generation of waste. The reuse and recycling of waste shall be practiced as far as possible. The recycled materials shall include paper/ cardboard, timber and metal.
Dust and fumes management	<ul style="list-style-type: none"> Prevent dust nuisance and smoke. Ensure that there will be adequate water supply/storage for dust suppression.

During the Track Record Period, our compliance cost in relation to the applicable environmental laws and regulations in Hong Kong was immaterial. We estimate that the annual cost of compliance going forward will be at a level similar to that incurred during the Track Record Period and consistent with our scale of operation.

INSURANCE

During the Track Record Period, we have taken out insurance policies relating to employees' compensation. Our Directors consider that our insurance coverage is adequate and consistent with industry norm having regard to our current operations and the prevailing industry practice. For FY2015/16, FY2016/17 and FY2017/18, our total insurances premium incurred were approximately HK\$0.2 million, HK\$0.2 million and HK\$0.2 million, respectively.

Employees' compensation insurance

Pursuant to section 40 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers (including contractors and subcontractors) are required to

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take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

Under section 24 of the Employees’ Compensation Ordinance, a contractor will be liable for any accident of the workers of its subcontractors on the work sites. Therefore, where we engage subcontractors, our Group will be liable for any accident of workers of our subcontractors in addition to our own employees. In Hong Kong, the main contractor of a construction project would normally take out insurance policy covering its liabilities as well as the liabilities of all its subcontractors under the Employees’ Compensation Ordinance. During the Track Record Period, save for contracts entered into with property owners, all of our Group’s customers had taken out employees’ compensation insurance policies pursuant to section 40 of the Employees’ Compensation Ordinance covering the liabilities of itself and its subcontractors. In such cases, our liabilities as a subcontractor and the liabilities of our subcontractors are insured by our customer’s insurance policy, which has also been reflected in the contracts entered into between our Group and our customers. As advised by our HK Legal Counsel, as long as the relevant main contractors have taken out insurance policies on their own to cover all the workers on the work sites up to the applicable amount, there is no requirement under the Employees’ Compensation Ordinance that such insurance policy must be taken out by our Group as well.

During the Track Record Period and up to the Latest Practicable Date, we have taken out employees’ compensation insurance to cover our liabilities under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all our back-office employees as required under the Employees’ Compensation Ordinance for an amount of up to HK\$100 million per event.

Other insurance coverage

We have also taken out comprehensive insurance on our motor vehicle.

Uninsured risks

Certain risks disclosed in the section headed “Risk factors” in this document, such as risks in relation to customer concentration, our ability to obtain new contracts, estimation and management of costs, our ability to retain and attract personnel, credit risk and liquidity risk are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed “Risk management and internal control systems” below in this section for further details regarding how our Group manages certain uninsured risks.

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EMPLOYEES

As at the Latest Practicable Date, we had 67 full-time employees who are directly employed by us in Hong Kong. The following table sets forth a breakdown of our full-time employees by function:

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018	As at the Latest Practicable Date
Directors and chief financial officer	4	3	4	4
Administrative and accounting department	5	7	7	7
Surveying department	4	4	5	7
Safety supervising department	0	1	7	6
Project department	22	34	42	39
Drafting department	1	2	3	3
Quality department	1	1	1	1
Total	37	52	69	67

Relationship with staff

Our Directors are of the view that our management and employees have maintained an amicable relationships which is expected to remain the same or rather better in the future. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material labour dispute or claim involving and against us.

Recruitment, employees’ remuneration and benefits

We generally recruit employees with the appropriate skills, both technical and personal, in order to meet our current and future needs and ensure that the employees appointed are qualified and competent to carry out their duties.

We may remunerate our employees with a fixed salary and a discretionary bonus based on our Group’s performance. Our employees’ benefits also include a grant to fund further education which aims at enhancing our employees’ personal development or equipping them with necessary knowledge and skills to perform their job duties. Our employees are also entitled to participate in the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to this document. Our ability to attract, retain and motivate qualified personnel is critical to our success. We believe that we are able to attract,

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retain and motivate qualified personnel by offering competitive remuneration and benefits. With a compact team of energetic employees, we endeavour to provide services that exceed our customers’ expectations, which we believe will help us secure new opportunities.

PROPERTIES

As at the Latest Practicable Date, we did not own any property and we leased the following property which was material to our business operation:

Location	Approximate Gross Floor Area (sq.ft.)	Rent (HK\$ per month)	Usage	Duration
Unit 8, 39/F Cable TV Tower No. 9 Hoi Shing Road Tsuen Wan New Territories Hong Kong	2,755	44,000	Office	From 1 April 2018 to 31 March 2021
House 3 8 Yau Lai Road Grandview Villa Yau Kom Tau Tsuen Wan New Territories Hong Kong	1,400	36,000	Directors’ quarter for the accommodation of Mr. Man and Mrs. Man	From 6 February 2017 to 5 February 2019

INTELLECTUAL PROPERTY RIGHTS

For the details of our intellectual property rights, please refer to the section headed “B. Further information about our business – 2. Intellectual property rights” in Appendix IV to this document.

As at the Latest Practicable Date, we were not aware of (a) any infringement which could have a material adverse effect on our business operations by our Group against any intellectual property rights of any third party or by any third party against any intellectual property rights of our Group; or (b) any disputes with third parties in relation to intellectual property rights.

RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activity.

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RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed “Risk factors” in this document. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation.

Customer concentration risk

Please refer to the paragraph headed “Our customers – Customer concentration”.

Credit risk relating to collection of trade receivables and retention receivables

Please refer to the paragraph headed “Our customers – Collection of trade receivables and retention receivables” in this section.

Risk of potential inaccurate cost estimation and cost overrun

Please refer to the paragraph headed “Our customers – pricing strategy” in this section.

Risks relating to subcontractors’ performance

Please refer to the paragraphs headed “Our suppliers – Basis of selecting subcontractors” and “Our suppliers – Control over subcontractors” in this section.

Quality control system

Please refer to the paragraph headed “Quality control”.

Environmental management system

Please refer to the paragraph headed “Environmental compliance”.

Occupational health and safety system

Please refer to the paragraph headed “Occupational health and safety” in this section.

Liquidity risk

We are exposed to liquidity risk due to the payment practice applied to our projects. For details of such risk, please refer to the section headed “Risk factors – Our liquidity may be materially and adversely affected due to the payment practice applied to our projects” in this document.

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We may experience net cash outflows at the early stage of a project as we are required to bear expenses upfront. Our customers make progress payments according to our work progress, and such payments need to be certified by our customers before we issue an invoice to them. In addition, where our contracts provide that our customers shall be entitled to retention money, 50% of the retention money will be released upon completion of the project and the remaining retention money will be released upon expiry of the defects liability period. Accordingly, our cash flow typically turn from net outflows at the early stage of a project into accumulative net inflows gradually as the project progresses. This results in a cash flow gap. To minimise our exposure to such liquidity risk, our administrative and accounting department regularly monitors our financial position. If there is any expected shortage of internal financial resources, we may refrain from undertaking new projects and/or consider different equity and/or debt financing alternatives, including but not limited to obtaining adequate committed lines of funding from banks and other financial institutions.

Corporate governance measures

We will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established three board committees, namely the audit committee, the nomination committee, and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the section headed “Directors, senior management and employees – Board committees” in this document. In particular, one of the primary duties of our audit committee is to review the effectiveness of our internal audit activities, internal control and risk management systems. Our audit committee consists of all three of our independent non-executive Directors, whose background and profiles are set out in the section headed “Directors, senior management and employees” in this document. In addition, to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the section headed “Relationship with our Controlling Shareholders – Corporate governance measures on compliance and enforcement of the Deed of Non-competition” in this document. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after [REDACTED].

OCCUPATIONAL HEALTH AND SAFETY

It is our commitment to provide a safe and healthy working environment for our employees and our subcontractors’ employees. To minimise the risk and occurrence of workplace accidents and comply with the applicable work safety laws and regulations in Hong Kong, during the Track Record Period, we have either engaged external safety consultants or employed and designate our safety officers and safety supervisors for reviewing and improving safety at project sites.

During the Track Record Period, we engaged registered safety auditor for the purpose of conducting safety audit on our safety management system in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulations. In the course of

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the safety audit, the safety auditor (i) conducted physical inspection on selected sites to assess if our established safety management system was implemented in accordance with the relevant laws and regulations in Hong Kong; (ii) obtained documents for review to assess the adequacy and effectiveness of our safety management system; and (iii) suggested areas of improvements and recommendations on our safety management system. Upon completion of the safety audit, the safety audit report was submitted to our safety supervising department and executive Directors for review and then submitted to the Labour Department. No material deficiencies in relation to workplace safety had been identified by the safety auditor and our safety management system had continually fulfilled the relevant safety regulations in all material respects.

During the Track Record Period and up to the Latest Practicable Date, there were a total number of 3 accidents which involved our employees and our subcontractors' employees at our project sites in the ordinary course of our business, of which 1 accident involving injury when lifting or carrying and 1 accident involving slip or fell were reported during the calendar year of 2015 and 1 accident involving lifting or carrying was reported during the calendar year of 2016. There were no fatal accidents during the same period.

LEGAL PROCEEDINGS AND CLAIMS

Save as disclosed in this document, our Directors confirm that no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to our Directors to be pending or threatened against any member of our Group during the Track Record Period and up to the Latest Practicable Date.

Potential litigation in relation to employees' compensation claims and personal injury claims

Potential claims refer to those accidents for which no claims have been commenced against us but are within the limitation period of two years (for employees' compensation claims) or three years (for personal injury claims) from the dates of the relevant accidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong). These accidents occurred during the usual and ordinary course of our business and have not caused any material disruption to our business. Since no court proceedings have commenced, we are not in a position to assess the likely quantum of such potential claims should they be initiated against us. Our Directors are of the view that any potential claims arising from the work injury accidents will be covered by the relevant insurance policies and to the extent that such amount is not covered by the relevant insurance policies, it will be indemnified by our Controlling Shareholders, pursuant to the Deed of Indemnity. Accordingly, the aforementioned potential claims would not result in any material impact on the operations, financial results or financial position of our Group.

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As at the Latest Practicable Date, two of our recorded work injury accidents might give rise to potential employees’ compensation and/or personal injury claims. The table below sets out a summary of the expiry of limitation period of the aforesaid work injury accidents:

Year	Number of employees’ compensation claims which limitation period will expire	Number of personal injury claims which limitation period will expire
From the Latest Practicable Date to 31 December 2018	Nil	1
2019	Nil	1
2020	Nil	Nil
2021	Nil	Nil
Total	Nil	2

No provision for litigation claims

Insurance policies have been taken out in compliance with applicable laws and regulations with a view to providing sufficient coverage for such work-related injuries for employees and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group’s operations. For further details on our insurance policies, please refer to the paragraph headed “Insurance” in this section.

Regarding the potential employees’ compensation claims and personal injury claims, no provision has been made in the financial statements of our Group having considered (i) the uncertainties as to whether such claims will be commenced; (ii) the coverage of liabilities under insurance policy; and (iii) the indemnity given by our Controlling Shareholders under the Deed of Indemnity.

COMPLIANCE

Our directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any non-compliance that is material or systemic in nature.