
BUSINESS

OVERVIEW

The Group is a subcontractor principally engaged in the design, supply and installation of facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors. The Group provides one-stop design, supply and installation services for curtain walls, aluminium windows and doors, and works closely with customers and architects in its design, supply and installation projects for new buildings to offer tailor-made designs and products to suit the project requirements. On a much smaller scale, the Group is also engaged in the provision of design, supply and installation for renovation service for facade and curtain walls on existing buildings, and repair, maintenance and others. The Group’s principal customers are main contractors and property developers. Please refer to the sub-section headed “Services of the Group” in this section for details of the services and products offered by the Group.

The Group owns and operates its own fabrication plant in Huizhou, the PRC, which serves as the production base for products used in the Group’s Design, Supply and Installation Projects, including customer-specified products and “Schüco” products. The products fabricated at the fabrication plant in Huizhou, the PRC, include curtain walls – stick system, aluminium windows, doors, balustrades, louvres, grilles, canopies, claddings and aluminium features. The fabrication plant is accredited with the ISO 9001 quality management system and the ISO 14001 environmental management system.

During the Track Record Period, the Group’s revenue derived from projects in Hong Kong and the PRC principally involving the Group’s design, supply and installation of curtain walls, aluminium windows and doors. The following table sets forth a breakdown of the Group’s revenue during the Track Record Period by contract type. Please refer to the sub-section headed “Financial Information – Principal components of results of operations” for further information regarding the Group’s revenue during the Track Record Period.

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	Year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Design, supply and installation for curtain walls, aluminium windows, doors and other products for new buildings (<i>notes i and ii</i>)	245,410	66.7	347,555	69.2	242,888	57.7
Design, supply and installation for aluminium windows, doors and other products for new buildings (<i>note ii</i>)	116,913	31.8	153,869	30.7	162,161	38.5
Design, supply and installation for renovation works for existing buildings	2,435	0.7	191	–	14,737	3.5
Repairing, maintenance and others (<i>note iii</i>)	3,010	0.8	323	0.1	1,360	0.3
Total	367,768	100.0	501,938	100.0	421,146	100.0

Notes:

- i* The contract type involves aluminium windows, doors and other products in addition to curtain walls. The curtain walls are the principal products for the contract type and the principal revenue from this contract type is also from curtain walls.
- ii* Other products represent balustrade, louvre, cladding, window wall, canopy and grille.
- iii* Others mainly represent mock up.

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During the Track Record Period, most of the Group’s projects were located in Hong Kong. The following table sets forth a breakdown of the Group’s revenue during the Track Record Period by geographical location of the projects:

	Year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Hong Kong	342,941	93.2	483,397	96.3	377,094	89.5
PRC	24,827	6.8	18,541	3.7	44,052	10.5
Total	367,768	100.0	501,938	100.0	421,146	100.0

One-stop design, supply and installation service for new buildings

The Group provides one-stop design, supply and installation services for facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors. The services undertaken by the Group in a typical design, supply and installation project for new buildings mainly include development of design, shop drawings, structural calculation, method statements, sourcing and procurement of materials, material fabrication and processing, arranging for installation works and post completion maintenance service for the relevant works performed by the Group and/or its subcontractors within the defects liability period and the warranty period. The Group is also responsible for the overall project management. Please refer to the sub-section headed “Operating procedures – Design, supply and installation projects for new buildings” in this section for details of the major steps involved in a typical design, supply and installation project for new buildings.

Million Hope Industries (HK), the principal operating subsidiary in Hong Kong, is a Registered Minor Works Contractor with the Buildings Department and a Registered Subcontractor with the Construction Industry Council. Million Hope (Huizhou), the principal operating subsidiary in the PRC, owns and operates the Group’s fabrication plant in Huizhou, the PRC, which fabricates the majority of the products used in the design, supply and installation projects for new buildings undertaken by the Group. For further details about the Group’s fabrication plant, please refer to the sub-section headed “Services of the Group – Fabrication facilities”. For Design, Supply and Installation Projects which involve the use of curtain walls – unitised system, the Group outsources the fabrication and assembly of the curtain wall – unitised system units to external suppliers, as the Group’s fabrication plant in Huizhou, the PRC, has insufficient space to handle such products. Please refer to the sub-section headed “Services of the Group – Components supplied by the Group” for further information on the various components supplied by the Group in a typical design, supply and installation project for new buildings.

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The following table sets forth a breakdown of the Group’s design, supply and installation projects for new buildings based on a scale of revenue recognition during the Track Record Period:

	Year ended 31 March		
	2016	2017	2018
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
Revenue recognised			
Above HK\$30.0 million	3	5	5
Above HK\$10.0 million to HK\$30.0 million	6	3	2
Above HK\$1.0 million to HK\$10.0 million	15	10	9
HK\$1.0 million and below	13	14	17
Total	37	32	33

During the Track Record Period, the Group completed a total of 35 design, supply and installation projects for new buildings. As at the Latest Practicable Date, the Group had a total of 30 design, supply and installation projects for new buildings on hand, representing projects commenced but yet to complete and projects where engagement has been confirmed but which has yet to commence, with an aggregate outstanding contract sum on hand of approximately HK\$739.9 million. For details on the Group’s latest development, please refer to the section headed “Summary – Recent developments” in this listing document.

One-stop design, supply and installation services for renovation works of existing buildings

On a much smaller scale, the Group provides renovation works for facade and curtain walls in Hong Kong. Such works generally include the design, supply and installation of curtain walls, aluminium windows and doors and other components in refurbishment works for existing buildings.

During the Track Record Period, the Group’s revenue generated from design, supply and installation services for renovation works of existing buildings for each of the three years ended 31 March 2018 amounted to approximately HK\$2.4 million, HK\$0.2 million and HK\$14.7 million, respectively, representing approximately 0.7%, 0.04% and 3.5% of the Group’s total revenue respectively.

Repair, maintenance and others

Also on a much smaller scale, the Group provides repair and maintenance services in Hong Kong. Such repair and maintenance work typically involves repair or replacement of aluminium windows and sliding doors, repair or replacement of damaged components such as aged sealant, window and door hardware, normally in respect of property development projects where the Group had previously acted as a subcontractor. Others mainly represented mock-up.

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During the Track Record Period, the Group’s revenue generated from repairing, maintenance and others for each of the three years ended 31 March 2018 amounted to approximately HK\$3.0 million, HK\$0.3 million and HK\$1.4 million, respectively, representing approximately 0.8%, 0.1% and 0.3% of the Group’s total revenue respectively.

COMPETITIVE STRENGTHS

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

Well-established in the facade and curtain wall works industry in Hong Kong

The Group has considerable experience in the facade and curtain wall works industry, having operated in the Hong Kong market for over 20 years. Million Hope Industries (HK) is a Registered Minor Works Contractor with the Buildings Department and a Registered Subcontractor with the Construction Industry Council, and has been awarded the ISO9001 certificate by the Hong Kong Quality Assurance Agency in relation to design, manufacture and installation project management of aluminium curtain wall and window since 1998. Since the acquisition of Million Hope Industries (HK) by the Hanison Group in 2007, the business of the Group has expanded over the years, and the annual revenue of the Group has increased from approximately HK\$59.0 million for the year ended 31 March 2008 to HK\$342.9 million for the year ended 31 March 2016, HK\$483.4 million for the year ended 31 March 2017, and HK\$377.1 million for the year ended 31 March 2018 in respect of revenue derived from projects in Hong Kong. During the Track Record Period, the Group had completed 35 design, supply and installation projects for new buildings, and as at 31 March 2018, the Group had a total of 32 design, supply and installation projects for new buildings on hand representing an aggregate outstanding contract sum of approximately HK\$634.7 million.

The Group’s principal customers are main contractors and property developers. When selecting a facade and curtain wall works contractor, the developer or main contractor will consider the track record and reputation of the facade and curtain wall works contractor in terms of quality of works, design capability, project management and timeliness of project completion. Over the years, the Group has established stable relationships with some of its major customers, ranging from two to 13 years. The Directors believe that this stands testament to the Group’s work and reputation within the facade and curtain wall works industry.

Based on the above, the Directors are of the view that the Group has, over the years, established a solid reputation and proven track record in the facade and curtain wall works industry in Hong Kong, which has enabled the Group to expand and develop its business and will continue to drive the Group’s growth in the future.

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Self-owned fabrication plant

The Group owns and operates its own fabrication plant in Huizhou, the PRC. The fabrication plant is equipped with the necessary facilities, machines and equipment to produce customer-specified products and “Schüco” products used in the Group’s Design, Supply and Installation Projects. Other than curtain walls – unitised system, the fabrication and assembly of which are outsourced to external suppliers due to insufficient space at the Group’s fabrication plant, nearly all of the customer-specified products and “Schüco” products are fabricated and processed at the Group’s fabrication plant. The Group places a high emphasis on the quality of its products, and its fabrication plant has been accredited with the ISO 9001 quality management system since 2009 and the ISO 14001 environmental management system since 2010. As the fabrication plant is self-owned and self-operated, the Group is in control of the production process and is thus better able to manage the quality of the products and the timing of production and delivery. The Directors believe that having its own fabrication plant and being able to control the production process also creates higher customer confidence in the Group’s products and services, and better enables the Group to respond effectively to the demands of its customers.

For further details about the Group’s fabrication plant, please refer to the sub-section headed “Services of the Group – Fabrication facilities”.

Business cooperation with Schüco as its working partner in Hong Kong and southern China

The Group has been appointed as a working partner of Schüco and an authorised manufacturer of “Schüco” products in Hong Kong and southern China since 2004. Schüco is a leading specialist in multi-functional building envelopes with expertise in windows, doors and facades. Schüco supplies the Group with the raw materials and hardware accessories used in “Schüco” systems, which the Group will process at its fabrication plant in accordance with Schüco-specified processes. The Group also works closely with Schüco during the course of its Design, Supply and Installation Projects to develop customised solutions where “Schüco” products are used. The Group believes that through the Group’s working partnership with Schüco, the Group has developed an extensive knowledge base in the design and fabrication of quality aluminium facades and fixtures, and this has enabled the Group to improve and enhance its product offerings.

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Professional operation by experienced management team, design team and project management team

The Group is led by an experienced management team in the facade and curtain wall works industry. Mr. Chuk Kin Lun and Mr. Lee Cheuk Hung, the executive Directors and Joint Managing Directors of the Company, have been working with the Group for over 10 years and 20 years (Mr. Lee Cheuk Hung having worked in Million Hope Industries (HK) prior to its acquisition by the Hanison Group) respectively and both of them have over 20 years experience in the building industry in Hong Kong. Please refer to the section headed “Directors and Senior Management” of this listing document for further details of their biographies and relevant industry experience.

As at the Latest Practicable Date, the Group’s design team consisted of 17 members, and the project management team consisted of 60 members. Excluding site supervisors, the majority of the Group’s design and project management teams possess higher diplomas or above in relevant disciplines and have been working with the Group for over three years on average. The Directors believe that the experience and knowledge of the management team, together with the expertise of the design and project management teams, has enabled the Group to deliver quality and satisfactory services to the Group’s customers, and will continue to enable the Group to deliver high quality products and services to its customers.

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

The Group has over 20 years’ of operating history in the facade and curtain wall works industry in Hong Kong. Throughout this period, the Group has built contacts with a stable pool of suppliers and subcontractors and has maintained business relationships with some of its major suppliers and subcontractors for over 10 years. For further details of the Group’s major suppliers and subcontractors, please refer to the sub-sections headed “Suppliers” and “Subcontractors” in this section. The Group maintains internal lists of approved suppliers and subcontractors, which are updated on a continual basis. For further details of the basis for selection of suppliers and subcontractors, please refer to the sub-sections headed “Suppliers – Basis of selection of suppliers” and “Subcontractors – Basis of selection of subcontractors” in this section.

The Directors consider that having a stable supply of materials, and labour for installation purposes, allows the Group to effectively maintain the quality of its work, including the materials and products used and the on-site installation activity, which is a crucial factor for the Group in securing new business opportunities and maintaining a good reputation within the industry.

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One-stop design, supply and installation services provider for facade and curtain wall systems

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

In order to ensure the quality of the Group’s works, a project management team will be formed for each Design, Supply and Installation Project of the Group and a project manager will be assigned to oversee the project. The assigned project manager will communicate with the customer from time to time throughout the project. The Directors consider that since the Group is involved in every stage of a Design, Supply and Installation Project, the Group can effectively monitor the progress of the projects and minimise the possibility of having significant deviation from the original design provided to its customers. For the Group’s customers, this is designed to save them time and cost in terms of searching for and engaging different parties to provide the different types of service at each stage of a project.

BUSINESS STRATEGIES

The Group’s overall business objective is to strengthen further its market position and competitiveness in the facade and curtain wall works industry in Hong Kong and the PRC. The Directors intend to pursue the following key strategies to achieve the Group’s future expansion plans:

Further increasing market awareness and recognition of the Group

The Group generally relies on its connections and relationships with existing customers and customer referrals to secure new projects. The Directors consider that the Group can broaden its client base and attract more invitations from potential customers by increasing marketing efforts to promote market awareness and recognition. The Group’s planned marketing efforts include (i) organising and attending trade exhibitions in Hong Kong and the PRC to showcase its products and capabilities, such as the China International Fenestration Exhibition and FENESTRATION BAU China; (ii) recruiting additional research and marketing staff to strengthen the Group’s marketing capabilities; and (iii) engaging a marketing agency firm to perform periodic market research on the trends and developments in facade and curtain wall products in Hong Kong and the PRC.

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During the Track Record Period, the Group secured new projects mainly through direct invitations for quotation or tendering by customers, but the Group did not have a dedicated sales and marketing team in Hong Kong. In order to implement the Group’s plan to increase its market awareness and recognition as mentioned above, the Directors consider that it would be necessary to recruit up to three additional research and marketing staff to enhance the research and marketing capabilities of the Group and assist in the development of the Group’s self-designed products based on market preferences. The Directors also consider that the engagement of a marketing agency firm to provide market research information on trends and developments in the facade and curtain wall works industry and products would serve to enable the Group to keep up to date with the latest industry trends and support and complement the Group’s marketing efforts, and facilitate the Group’s continuing efforts to provide its customers with innovative solutions and remain competitive.

The costs of organising and participating in trade exhibitions are estimated to be approximately HK\$1.5 million per annum for each of the three years after the Listing. The annual staff cost for research and marketing is estimated to be approximately HK\$1.5 million for each of the three years after the Listing. The cost of engaging a marketing agency firm is estimated to be approximately HK\$1.0 million per annum for each of the three years after the Listing. The aforementioned costs are expected to be financed from the cash injection from Remaining Group to the Group prior to the completion of the Spin-off.

Further enhancing the Group’s production capacity and efficiency

During the Track Record Period, the Group recorded revenue growth from approximately HK\$367.8 million for the year ended 31 March 2016 to HK\$421.1 million for the year ended 31 March 2018, and as at the Latest Practicable Date, the Group had 30 design, supply and installation projects for new buildings on hand. During the Track Record Period, the utilisation rate of the Group’s fabrication plant for window wall and curtain wall systems increased from approximately 92% for the year ended 31 March 2016 to approximately 98% for the year ended 31 March 2018, and the utilisation rate for window and door systems increased from approximately 51% for the year ended 31 March 2016 to approximately 98% for the year ended 31 March 2018. Further details are set out in the sub-section headed “Services of the Group – Fabrication facilities”.

To support the continued growth of the Group’s business and to enhance the production capacity of the Group, the Group plans to acquire new machinery and equipment for use in the Group’s fabrication plant in Huizhou, the PRC, including double head rising up cutting off machines, a four axis aluminium machining center, and automatic notching machines, to replace certain aged machinery and equipment (some of which were acquired by the Group as early as 2009 and were fully depreciated as at the Latest Practicable Date). It is expected that the acquisition of new machinery and equipment will enhance the Group’s production capacity and efficiency.

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The Directors believe that the acquisition of new machinery and equipment will allow the Group to (i) enhance its operational efficiency and technical capability; (ii) cope with its business development plan to undertake more projects; and (iii) manage its production process more efficiently. The expected capital expenditure for the acquisition of the new machinery and equipment will be approximately HK\$25.0 million, which is expected to be financed from the cash injection from Remaining Group to the Group prior to the completion of the Spin-off.

Expanding the Group’s capacity to undertake more projects

The Group plans to further expand its capacity to undertake more Design, Supply and Installation Projects to expand its curtain walls, aluminium windows and doors businesses. According to the Ipsos Report, the facade and curtain wall works industry in Hong Kong has experienced considerable growth, with the gross output value of the facade and curtain wall works industry increasing from HK\$4,699.5 million in 2013 to HK\$5,445.7 million in 2017, at a CAGR of approximately 3.8%, while in the PRC, the gross output value of the facade and curtain wall works industry increased from RMB573.8 billion in 2013 to RMB737.7 billion in 2017, rising at a CAGR of approximately 6.5%. The facade and curtain wall works industry in Hong Kong is expected to continue its growth, driven by demand arising from infrastructure projects, new commercial buildings and new residential buildings, while the continued growth of the facade and curtain wall works industry in PRC is expected to be driven by the promotion of green buildings initiated by the PRC government. The Directors are of the view that these industry developments will present the Group with business opportunities for potential new projects.

The Directors believe that the Group’s capacity to undertake projects depends on the amount of available working capital and cash flow. It is common in the construction industry that the Group incurs net cash outflows at the early stage of any project since the Group is typically required to pay certain upfront costs, such as cost of materials, subcontracting and other charges and insurance expenses, in advance of payment from its customers, whereas the customers normally make progress payments to the Group after the works have commenced and/or are completed. Customers generally make the first progress payment to the Group approximately three to six months after commencement of the relevant projects. Furthermore, customers typically withhold 10% of each interim payment up to an aggregate of 5% of the total contract sum as retention money, which will only be fully released to the Group subsequent to the expiry of the defects liability period.

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During the Track Record Period, the Group utilised certain banking facilities which were shared with other subsidiaries of the Remaining Group and internal resources to finance the upfront payments. The Directors consider that the number of projects that the Group is able to undertake is, in large part, driven by the availability of working capital. Prior to the completion of the Spin-off, the Remaining Group will inject an amount of approximately HK\$371.3 million into the Group. (This amount will be adjusted by reference the net asset value of the Group as at the date immediately before the Distribution.) Such cash injection will increase the available working capital of the Group as the Group intends to apply part of the cash injection to finance its projects, hence expanding the Group’s capacity to undertake more projects.

Further strengthening the Group’s capital base

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

During the Track Record Period, the Group undertook multiple projects requiring the provision of performance bonds. As at 31 March 2016, 2017 and 2018, the Group’s outstanding performance bonds in respect of the Group’s construction contracts with customers amounted to approximately HK\$62.6 million, HK\$100.8 million and HK\$87.2 million, respectively. These banking facilities are shared with other subsidiaries of the Remaining Group. As at the Latest Practicable Date, the Group is arranging its own banking facilities for an aggregate amount of HK\$220 million with three banks in Hong Kong, which is expected to be available upon the Listing.

Establishing a new fabrication plant in the PRC

As discussed in the sub-section “Competitive Strengths – Self-owned fabrication plant” above, while the majority of products used in the Group’s Design, Supply and Installation Projects are fabricated and processed at the Group’s self-owned fabrication plant, the Group generally outsources the fabrication and assembly of curtain wall – unitised system products to external suppliers, as the Group’s fabrication plant in Huizhou, the PRC, has insufficient space to handle such products.

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Based on the experience of the Group, the curtain wall – unitised system is popular with developers. According to the Ipsos Report, as curtain wall – stick systems are installed piece by piece at the construction site and the installation process requires a large number of labourers, the installation process is generally slower and the quality of the on-site installation may vary as it is carried out by different workers, and thus it is more difficult to address quality control on stick wall systems. In comparison, as the curtain wall – unitised system is pre-fabricated in modules off-site and delivered in panels to the construction site, the installation process requires fewer labourers, and quality control is also comparatively easier since the curtain wall units are fabricated in a controlled environment.

In view of the foregoing, the Directors consider that curtain wall – unitised systems will be an important area of growth for the business of the Group.

To support the business expansion of the Group and in light of the expected increase in demand for curtain wall – unitised systems, the Directors consider that there is a business need for a larger fabrication plant, which would enable the Group to undertake the fabrication process of curtain wall – unitised systems products and reduce the Group’s reliance on external suppliers in this regard. The Group has been seeking to acquire land in the PRC for a larger fabrication plant, but as at the Latest Practicable Date, the Group has yet to identify a suitable parcel of land that meets the criteria of the Group. In selecting a suitable property, the Group will consider the following criteria: (i) having a gross floor area of approximately 60,000 to 100,000 square meters; (ii) being located in an area close to the location of the Group’s existing fabrication plant or otherwise suitable for the Group’s operational needs; (iii) being suitable for use as a fabrication facility; and (iv) the costs of establishing the new fabrication plant being within HK\$150.0 million (for the acquisition of land and building, construction costs or renovation costs). The Group intends to identify a suitable property for the new fabrication plant within three years of Listing. Once a suitable property is identified based on the Group’s criteria, the Directors will make a final decision after having regard to, among other things, its pipeline of future projects and projected capacity requirements, including the number of projects requiring curtain walls – unitised system, and the prevailing market conditions generally. The costs of establishing a new fabrication plant are expected to be financed from the cash injection from Remaining Group to the Group prior to the completion of the Spin-off.

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Further strengthening the Group’s manpower

In considering whether to submit a tender or undertake a new project, the Group will take into account, amongst others, the Group’s projects on hand, the availability of the Group’s financial and human resources, and the scale of projects as factors. The Directors believe that a team of skilled staff members with appropriate knowledge and experience is crucial to the Group’s continuing success. In addition to recruiting additional marketing staff to enhance the Group’s marketing efforts, as discussed in the sub-section headed “Further increasing market awareness and recognition of the Group” above, the Group intends to strengthen its manpower by recruiting additional staff including tendering, project, and factory staff to (i) increase the Group’s in-house capacity and project capabilities; and (ii) support the Group’s business development and expansion plan.

SERVICES OF THE GROUP

The Group is a subcontractor principally engaged in the design, supply and installation of facade and curtain wall systems, with a focus on curtain walls, aluminium windows and doors. The Group provides one-stop design, supply and installation services for curtain walls, aluminium windows and doors, and works closely with customers and architects in its design, supply and installation projects for new buildings to offer tailor-made designs and products to suit the project requirements. On a much smaller scale, the Group is also engaged in the provision of renovation works for facade and curtain walls on existing buildings, and repair and maintenance services. The Group’s principal customers are main contractors and property developers.

During the Track Record Period, the Group’s revenue was substantially derived from the Group’s design, supply and installation of curtain walls, aluminium windows, doors and other products projects for new buildings located in Hong Kong and the PRC, which accounted for approximately 98.5%, 99.8% and 96.2% of the Group’s revenue for each of the three years ended 31 March 2018, respectively. Most of the Group’s projects are located in Hong Kong, which accounted for approximately 93.2%, 96.3% and 89.5% of the Group’s total revenue for each of the three years ended 31 March 2018, respectively.

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In a typical new building project, facade and curtain wall works are considered as part of the building construction works. In Hong Kong, generally, the property developer (for private construction projects) or the government (for public sector projects) will engage an architect to develop the overall building design and produce the design and construction documents, and choose a main contractor which will be responsible for overall project management and on-site construction. After a main contractor is selected, the main contractor will further obtain tenders from different subcontractors based on the services required, such as foundation, site formation, building works as well as facade and curtain wall works. According to the Ipsos Report, subcontractors can be mainly classified as nominated subcontractors or domestic subcontractors. A nominated subcontractor refers to a subcontractor that is chosen and nominated by the property developer to perform the specialist works in respect of the project, and the main contractor does not have control over the property developer’s selection of the nominated subcontractor. A domestic subcontractor refers to a subcontractor that is chosen by the main contractor to perform certain works on the project. In both cases, the main contractor is involved in signing the subcontracting agreement with the subcontractor and will be responsible for the administration of the subcontractor’s work. There is no material difference between the operating procedures for a nominated subcontractor and a domestic subcontractor.

During the Track Record Period, the Group acted as a nominated subcontractor in the majority of its projects in Hong Kong. Included in the revenue from Hong Kong, there was revenue of approximately HK\$316.8 million, HK\$ 427.8 million and HK\$331.8 million derived from projects which the Group acted as a nominated subcontractor for the year ended 31 March 2016, 2017 and 2018, respectively.

One-stop design, supply and installation services for new buildings

The Group provides one-stop design, supply and installation services for facade and curtain walls systems of new buildings. Services undertaken by the Group in a typical design, supply and installation project for new buildings project mainly include preliminary design and site analysis, shop drawings, structural calculations, sourcing and procurement of materials, material fabrication and processing, arranging for installation works and post completion maintenance service for the relevant works performed by the Group and/or its subcontractors within the defects liability period and the warranty period. The Group is also responsible for the overall project management.

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One stop design, supply and installation for renovation services of existing buildings

On a much smaller scale, the Group provides renovation works for facade and curtain walls on existing buildings in Hong Kong. Such works generally include the design, supply and installation of curtain walls, aluminium windows, doors and other components in refurbishment works for existing buildings.

Repair, maintenance and others

Also on a much smaller scale, the Group provides repair and maintenance services for curtain walls, aluminium windows and doors projects in Hong Kong. Such repair and maintenance work undertaken by the Group mainly include repair or replacement of aluminium windows and sliding doors, repair or replacement of damaged components such as aged sealant, window and door hardware, normally in relation to property development projects where the Group had previously acted as a subcontractor. Others mainly represented mock up.

Components supplied by the Group

A brief description of the various components supplied by the Group in a typical Design, Supply and Installation Project is set out below:

Curtain walls

A curtain wall is an external building envelope that is intended to support only its own weight and withstand the effects of environmental forces such as wind and rain, and is a non-load bearing structure of a building. As such, it can be made of lightweight materials, thereby reducing construction costs.

The common materials used for curtain walls include glass, aluminium plate and various types of stone. The curtain wall is typically supported by extruded aluminium frames that are attached on to the beam edge of the building, and is designed to resist air and water infiltration, absorb sway induced by wind and seismic forces acting on the building, withstand wind loads, and support its own dead load weight forces.

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The main categories of curtain wall systems include the stick system and the unitised system. For the stick system, the assembly and installation of the curtain wall frame and the glazing is mainly done on-site, whereas unitised systems are generally pre-fabricated in modules and the glazing is done in a factory off-site, and the finished panels are transported to the construction site for installation. Since unitised curtain wall modules are pre-fabricated at a processing factory (rather than being assembled at the construction site), a spacious area is required for the fabrication process. According to the Ipsos Report, while it is common for facade and curtain wall contractors to have their own factories for the fabrication of windows and curtain wall – stick systems, the fabrication of curtain wall – unitised systems may be outsourced to other factories due to the space demand and the advanced equipment required for such fabrication.

Curtain walls are typically installed from the outside of the building, and panels are lifted for installation by cranes or hoisting rigs. According to the Ipsos Report, it is common in the industry for facade and curtain wall works contractors to further engage a subcontractor which has its own team of direct labour to carry out the on-site installation. In such cases, the facade and curtain wall works contractor will be responsible for overseeing and managing the quality of the work conducted by the subcontractor for installation works. Compared with the curtain wall – stick system, the installation work for the curtain wall – unitised system can be faster as no on-site glazing work is required, and requires fewer labourers. In general, developers will decide which curtain wall system to use in the building project depending on the project design, budget and time schedule.

Aluminium windows and doors

The Group designs and supplies aluminium windows and doors solutions based on the specific requirements of each Design, Supply and Installation Project.

Other products

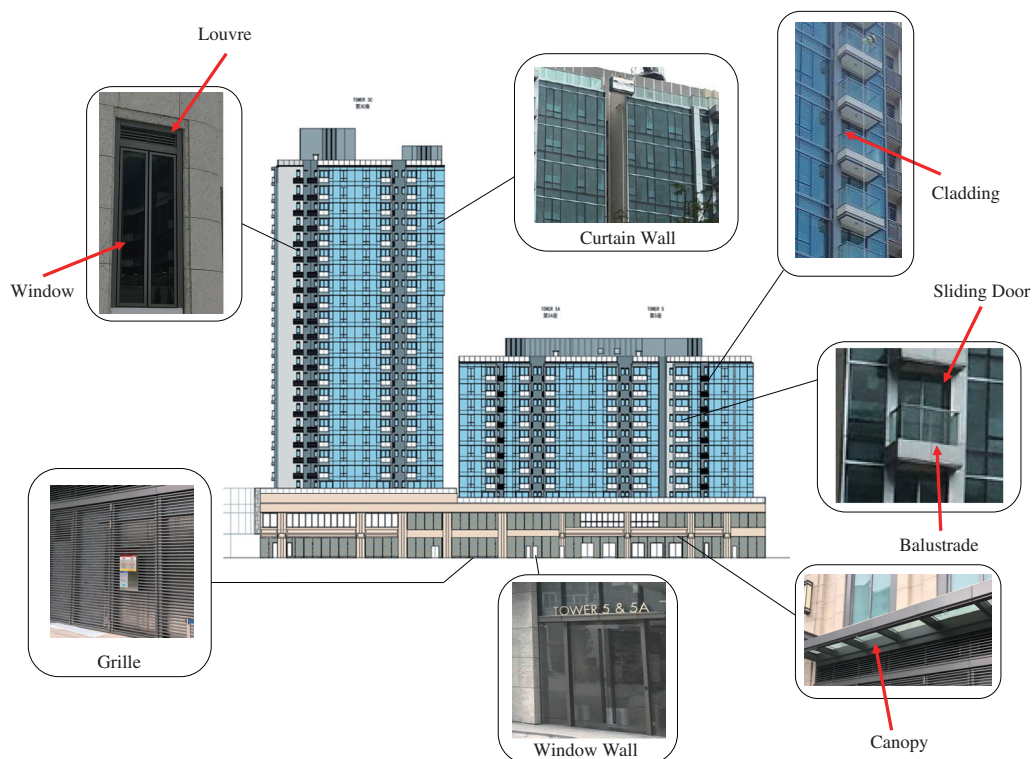
Other components supplied by the Group in a typical Design, Supply and Installation Project also include the following:

- balustrade: balustrades are used in balconies, along stairs, decks or galleries to provide a protection barrier for separation, support and safety;
- louvre: a blind or shutter with horizontal slats that are angled for air ventilation and admission of light; the angle of slats are adjustable manually or by an actuator. It is regarded as an accessory installed on top of a window, or inside a bathroom that helps to block out direct sunlight, rain and noise and for better ventilation;
- cladding: an architectural decoration attached to the primary structure of a tower to form non-structural, external surfaces;

BUSINESS

- window wall: a window wall is achieved by placing glazing between a building’s floor slabs, using the floor slabs as structural support. The distinctive feature of the window wall is that it spans between the floor slabs. At the base of the system on each floor, the window wall units are laterally fastened to an aluminium angle, which, in turn, is fastened to the floor slab. The floor slab directly supports the vertical load of the unit. The top of the unit is fastened with aluminium straps on the underside of the slab overhead;
- canopy: an overhead roofing structure that has an open end, which is typically installed to provide shelter from the rain and sunlight. It is generally suspended from a fixed structure at the podium section that incorporates glass or metal covering. It can be transparent, translucent or opaque; and
- grille: an opening structure with several splits to provide a frame or barrier to a window. Similar to the louvre, a grille is often regarded as an accessory installed on top of a window, to avoid access by incoming objects or the prospect of people or objects falling from the apartments or balconies.

The following picture illustrates the positions of the various components supplied by the Group in a typical Design, Supply and Installation Project:



BUSINESS

Fabrication facilities

The Group owns and operates its own fabrication plant in Huizhou, the PRC, which serves as the production base for customer-specified products and “Schüco” products used in the Group’s Design, Supply and Installation Projects. The fabrication plant is on an industrial complex located at Huanzhen Road, Shangxia Development Zone, Shuikou, Huizhou, Guangdong Province, the PRC and has a gross floor area of approximately 8,567.1 m², and as at the Latest Practicable Date, has approximately 150 staff. The fabrication plant is accredited with the ISO 9001 quality management system and the ISO 14001 environmental management system. The products fabricated at the fabrication plant include curtain walls – stick system, aluminium windows, doors, balustrades, louvres, grilles, canopies, claddings and aluminium features, and “Schüco” products such as window and door systems. The Group generally outsources the fabrication of curtain wall – unitised system products to external suppliers as the Group’s fabrication plant has insufficient space to process such products.

The following table sets out further information of the major equipment in use and owned by the Group as at 31 March 2018. The Group does not lease any equipment for the fabrication of its products.

Type of equipment	Number of units	Function and usage	Average approximate age (years)	Average remaining useful life (years)
Cutting machines	10	Cutting extrusions profile to designated size	10	4
Profile machining centers	5	Processing extrusions profile, including drilling, milling, tapping and cutting	10	5
Notching machines	4	Cutting profile and recess notch and tenon joint	10	3
Bending machines	3	Precision bending of profile to required shape and curvature	10	4
Crimping machines	3	To join segments of metal together	10	5

BUSINESS

As per the applicable accounting policies adopted by the Group, depreciation of the Group’s equipment is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives, which is 10 years. The estimated residual values, useful lives and depreciation method are reviewed at the end of each reporting period.

The Group does not have a fixed replacement cycle policy. The equipment, when maintained properly, can be used for around 10 years. Maintenance and repair works of the Group’s equipment is generally conducted on a monthly basis. There is generally no pre-determined period of use for the Group’s equipment but instead it is assessed based on wear-and-tear of individual equipment.

Set out below is the theoretical production capacity and the utilisation rate of the Group’s fabrication plant for the periods indicated:

Product	Annual production capacity	Approximate utilisation rate for year ended 31 March 2016	Approximate utilisation rate for year ended 31 March 2017	Approximate utilisation rate for year ended 31 March 2018
	(m ²)	(%)	(%)	(%)
	(Note 1)	(Note 2)	(Note 2)	(Note 2)
Curtain walls and window walls	28,000	92	90	98
Windows and doors systems	70,000	51	64	98

Notes:

- The production capacity was measured in m² based on the production floor area and production workers assuming that the fabrication plant operates for 10 hours per day and 300 days per year. The annual capacity per square metre was assumed to be:
 - Curtain walls and window walls – 28,000 m²
 - Windows and doors systems – 70,000 m²
- The utilisation rate for the fabrication plant for each year during the Track Record Period was calculated by dividing the total actual output for the whole of the financial year by the production capacity.

BUSINESS

The actual production capacity of the fabrication plant will vary according to the following factors:

- Number and scale of the Design, Supply and Installation Projects – the quantities of product required and therefore the actual production of the fabrication plant will depend on the number of ongoing Design, Supply and Installation Projects at the time, the timetable for each project, as well as the scale of each project. There is no seasonality for the Group’s projects.
- Specifications of the curtain wall, aluminium windows and doors products – the curtain wall, aluminium windows and doors products are designed and tailor-made for each project in accordance with the requirements of the customers, and therefore the specifications of the products and quantities required will vary depending on the Design, Supply and Installation Projects.
- Use of different machines – the fabrication production line comprises a number of different machines for various purposes. The specifications of each machine will therefore have an impact on the overall production capacity.
- Efficiency of production – the Group’s processing capability including the level of skill and experience of the relevant workers handling such fabrication process will affect the overall production capacity.

DESIGN, SUPPLY AND INSTALLATION PROJECTS FOR NEW BUILDINGS OF THE GROUP

Design, supply and installation projects for new buildings awarded to the Group during the Track Record Period

During each of the three years ended 31 March 2018, the Group was awarded 8, 7 and 6 design, supply and installation projects for new buildings, respectively.

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

	Year ended 31 March		
	2016	2017	2018
	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>	<i>Number of projects awarded</i>
Awarded contract sum			
HK\$100.0 million or above	3	0	1
Above HK\$50.0 million to HK\$100.0 million	1	4	2
HK\$50.0 million or below	4	3	3
Total	8	7	6

BUSINESS

Design, supply and installation projects for new buildings with revenue recognition during the Track Record Period

During each of the three years ended 31 March 2018, there were 37, 32 and 33 design, supply and installation projects for new buildings that contributed to the Group’s revenue, respectively.

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

	Year ended 31 March		
	2016	2017	2018
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
Revenue recognition during the year			
HK\$30.0 million or above	3	5	5
Above HK\$10.0 million to HK\$30.0 million	6	3	2
Above HK\$1.0 million to HK\$10.0 million	15	10	9
HK\$1.0 million or below	13	14	17
Total	37	32	33

Design, supply and installation projects for new buildings completed by the Group during the Track Record Period

During each of the three years ended 31 March 2018, the Group completed 13, 10 and 12 design, supply and installation projects for new buildings, respectively.

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

	Year ended 31 March		
	2016	2017	2018
	<i>Number of projects</i>	<i>Number of projects</i>	<i>Number of projects</i>
Revenue recognition during the year			
HK\$10.0 million or above	1	0	0
Above HK\$1.0 million to HK\$10.0 million	5	3	1
HK\$1.0 million or below	7	7	11
Total	13	10	12

BUSINESS

Design, supply and installation projects for new buildings on hand during the Track Record Period

As at 31 March 2016, 2017 and 2018, the Group had 41, 38 and 32 design, supply and installation projects for new buildings on hand, respectively. The following table sets forth the movement of the Group’s design, supply and installation projects for new buildings during the Track Record Period:

	Year ended 31 March		
	2016	2017	2018
Opening number of design, supply and installation projects for new buildings (<i>Note 1</i>)	46	41	38
Number of design, supply and installation projects for new buildings awarded (<i>Note 2</i>)	8	7	6
Number of design, supply and installation projects for new buildings completed (<i>Note 3</i>)	(13)	(10)	(12)
Closing number of design, supply and installation projects for new buildings (<i>Note 4</i>)	41	38	32

Notes:

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

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As at 31 March 2016, 2017 and 2018, the value of the Group’s design, supply and installation projects for new buildings on hand amounted to approximately HK\$689.6 million, HK\$575.3 million and HK\$634.7 million, respectively. The following table sets forth the movement of the value of the Group’s design, supply and installation projects for new buildings during the Track Record Period:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’million</i>	<i>HK\$’million</i>	<i>HK\$’million</i>
Opening value of design, supply and installation projects for new buildings on hand (<i>Note 1</i>)	479.4	689.6	575.3
Total value new design, supply and installation projects for new buildings awarded (<i>Note 2</i>)	572.4	386.8	464.3
Revenue recognised (<i>Note 3</i>)	(362.2)	(501.1)	(404.9)
Closing value of design, supply and installation projects for new buildings on hand (<i>Note 4</i>)	<u>689.6</u>	<u>575.3</u>	<u>634.7</u>

Notes:

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

BUSINESS

RENOVATION WORKS ORDERS OF THE GROUP

During the Track Record Period, the Group received a total of three renovation works orders, and as at the Latest Practicable Date, the Group had one renovation works order on hand. Details are set out below:

	Year ended 31 March		
	2016	2017	2018
Number of renovation works orders received by the Group	1	0	2
Number of renovation works orders completed by the Group	0	0	0

The Group’s renovation works orders generally take about 12 to 24 months to complete. As at 31 March 2015, the Group had completed all its renovation works orders received prior to the Track Record Period, and as at the Latest Practicable Date, the Group has completed two renovation works orders received during the Track Record Period.

REPAIR AND MAINTENANCE WORKS ORDERS OF THE GROUP

During the Track Record Period, the Group received a total of nine repair and maintenance works orders, and completed a total of 15 repair and maintenance works orders, details of which are set out below. As at the Latest Practicable Date, the Group had one repair and maintenance works order on hand.

	Year ended 31 March		
	2016	2017	2018
Number of repair and maintenance works orders received by the Group	4	3	2
Number of repair and maintenance works orders completed by the Group	7	1	7

BUSINESS

DESIGN, SUPPLY AND INSTALLATION PROJECTS ON HAND AS AT THE LATEST PRACTICABLE DATE

As at the Latest Practicable Date, the Group had 31 Design, Supply and Installation Projects on hand, representing projects that have commenced but not yet completed and projects that have engagement confirmed but not yet commenced. A summary of significant projects is set out below:

No.	Location	Types of contracts	Awarded time (Note 1)	Original contract sum awarded	Accumulated revenue recognised during the Track Record Period (Note 1)	Revenue expected to be recognised from 1 April 2018 to 31 March 2019 (Note 1)	Revenue expected to be recognised from 1 April 2019 to 31 March 2020 (Note 1)	Revenue expected to be recognised from 1 April 2020 to 31 March 2021 (Note 1)
				HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
1	Lohas Park–Package 6	Type B (note 3)	December 2016 & August 2017	165.8	57.8	85.5	27.4	-
2	Pak Shek Kok	Type A (note 2)	December 2016	77.4	20.8	85.2	1.4	-
3	Lohas Park–Package 7	Type A (note 2)	November 2017	190.0	1.1	54.6	97.6	36.7
4	New Town Plaza	Type C (note 4)	September 2017	25.6	13.1	8.7	3.8	-
5	Tuen Mun, So Kwun Wat	Type B (note 3)	January 2018	23.4	–	10.2	13.8	-
6	Lok Wo Sha	Type B (note 3)	October 2017	50.0	0.2	29.9	19.9	-
7	Tin Shui Wai	Type A (note 2)	January 2018	86.5	–	41.3	37.8	7.4
8	Lohas Park–Package 10	Type A (note 2)	July 2018	138.6	–	1.0	83.5	54.1
9	Plantation Road	Type B (note 3)	July 2018	34.1	–	2.0	20.0	12.1
10	Lockhart Road	Type A (note 2)	September 2018	58.2	–	–	25.0	33.2

Notes:

- Based on the respective latest programme of the projects.
- Type A represents “Design, supply and installation for curtain walls, aluminium windows, doors and other products for new buildings”.
- Type B represents “Design, supply and installation for aluminium windows, doors and other products for new buildings”.
- Type C represents “Design, supply and installation for renovation works for existing buildings”.

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Following are detailed locations for the above projects as stated in the contracts:

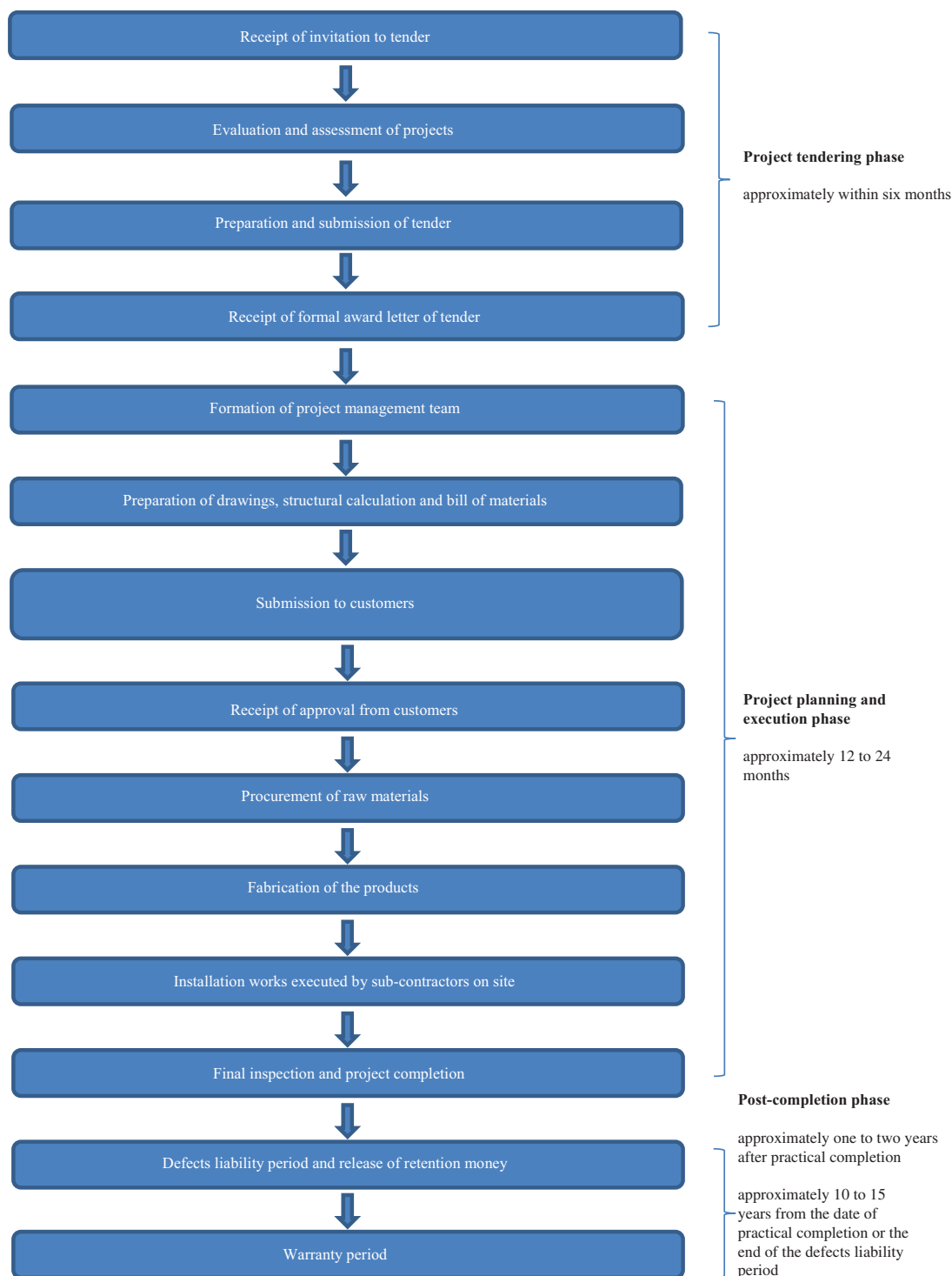
Lohas Park–Package 6	Site N of TKOTL 70 RP Lohas Park Package 6
Pak Shek Kok	TPTL 225, Pak Shek Kok, Tai Po, N.T.
Lohas Park–Package 7	Lohas Park Seven at TKOTL 70 RP, Site C1, New Territories
New Town Plaza	STTL 316, New Town Plaza Phase III Sha Tin, N.T.
Tuen Mun, So Kwun Wat	TMTL 541, So Kwun Wat Road, Area 56, Tuen Mun, N.T.
Lok Wo Sha	STTL 605 Lok Wo Sha Lane at Ma On Shan, Sha Tin
Tin Shui Wai	TSWTL 34, Area 115, Tin Shui Wai, N.T.
Lohas Park–Package 10	Tseung Kwan O Area 86, Site I, Tseung Kwan O, N.T. — TKOTL 70 RP, Lohas Park–Package 10
Plantation Road	No. 1 Plantation Road, Hong Kong
Lockhart Road	No. 75–85 Lockhart Road, Wan Chai, Hong Kong

BUSINESS

OPERATING PROCEDURES

Principal Steps in a Design, Supply and Installation Project

Set out below is a flow chart summarising the principal steps of the Group’s workflow in a typical Design, Supply and Installation Project:



BUSINESS

Design, supply and installation projects for new buildings

Project tendering phase

Depending on the scale of the development projects and the requirements of the project owners (i.e. property developers), the Group may be selected as a nominated subcontractor by property developers, or invited by its customers directly to submit a tender for potential design, supply and installation projects for new buildings. During the Track Record Period, the Group mainly acted as a nominated subcontractor in its design, supply and installation projects for new buildings.

Upon receipt of an invitation to tender, the tendering team collaborates with the design team and project team to prepare project budgets and tender submission according to the requirements stated in the tender invitations and Schedule of Rates, if any. The tendering team will review the tender requirements and conduct an internal evaluation of the feasibility of undertaking the project, taking into account various factors such as technical requirements, costs budget, project scale, the Group’s projects on hand, and the availability of the Group’s resources. The Group may conduct a site visit to the place at which the project is to be undertaken, if necessary, to assess the level of difficulty of the project and to facilitate the Group’s assessment on its own capabilities and the workforce required.

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

Project owners/customers may arrange interviews with the Group after receiving the tender submission or quotation from the Group in order to have a better understanding of the Group’s expertise and experience. If the Group’s tender submission is accepted, the Group will receive a letter of acceptance or letter of award issued by the project owner/customer. The Group subsequently enters into a formal contract with the customer.

BUSINESS

Tendering strategy

During the Track Record Period, the Group received invitations for tenders or quotation for facade and curtain walls works mainly for private sector residential projects. In considering the submission of tenders or quotations, the Group takes into account, among other things, (i) the projects on hand and the availability of the Group’s resources; (ii) the level of the Group’s interest in the relevant project in terms of expected profitability; and (iii) the marketing effects in undertaking the project. The Group generally does not turn down invitations to submit tenders or quotations, as the Group believes that it is important for the Group to participate in tenders or quotations in order to (i) maintain its relationship with customers; (ii) maintain its presence in the market; and (iii) be informed of the latest market developments and pricing trends. The following table sets forth a summary of the number of tenders submitted, number of design, supply and installation projects for new buildings awarded and the tender success rate of the Group during the Track Record Period:

	Year ended 31 March		
	2016	2017	2018
Number of tenders submitted for design, supply and installation projects for new buildings	30	21	23
Number of design, supply and installation projects for new buildings awarded	8	7	6
Tender success rate (%)	27	33	26

Given the Group’s tender strategy and in view of the Group’s performance over the Track Record Period, the Directors consider that the overall tender success rate during the Track Record Period has been satisfactory in general.

Project planning and execution phase

Upon the award of a contract, the Group will form a project management team to oversee and manage the design, supply and installation project for new buildings. The core project team comprises, in general, a senior project manager, a project manager, project coordinators, foremen, a safety supervisor and a safety officer, but could vary depending on the project complexity and project size. The project management team is led by the project manager, who is responsible for all aspects of the project including general project management, communicating with other team members, determining the works to be subcontracted and materials required, preparing the production planning schedule in respect of products to be fabricated in the Group’s fabrication plant in Huizhou, the PRC, coordinating with customers and subcontractors, supervising the work progress, and budget monitoring. The project management team will liaise with the procurement team in relation to the procurement of materials and will directly report to the executive Directors on the work progress.

BUSINESS

The Group’s in-house design team, which comprises design managers, design engineers, draftsman, and structural engineering manager, is responsible for formulating the design plan according to the contracts specification and design intent. The design engineer has the overall responsibility for preparing shop drawings, structural calculations and bill of materials according to the specifications stated in the contracts. The shop drawings are reviewed and approved by the design manager before they are submitted to architects appointed by the project owner/customers for approval. The shop drawings with design and structural calculations are submitted to the architect for the building project and the Registered Structural Engineer for their respective approval, and once such approvals are obtained, approval will be sought from the Buildings Department for execution.

Once the Group has obtained approval on the materials submissions from the appointed architects of the project owners/customers, the Group’s procurement team will procure the raw materials required. Raw materials used in the Group’s design, supply and installation projects for new buildings mainly comprise aluminium, steel and glass. The Group maintains a list of approved suppliers, which is reviewed by the project team, the contracting team and the procurement team on an annual basis. For further details about the Group’s suppliers, please refer to the sub-section headed “Suppliers” in this section. Depending on the purchase amounts, the Group will typically obtain three quotations from its approved suppliers for each main category of materials and services required, unless a supplier is selected and specified by the customer or architect.

Materials are fabricated and processed in the Group’s fabrication plant in Huizhou, the PRC. The project management team is responsible for preparing the production planning schedule as an overview of the fabricated products to be produced and delivered through the entire phase of the project, and for sending the production instruction to the fabrication plant to initiate production. Prior to mass fabrication, the Group will produce a mock-up of the product for its internal verification to ensure that the finished product will comply with the required specifications. The finished products are checked by the quality assurance supervisor at the fabrication plant before delivery to the construction site.

For curtain wall – unitised system products, which fabrication and processing are outsourced to external suppliers, the Group will purchase the necessary materials for the external suppliers’ fabrication and processing, and the finished products are usually sent directly to the construction site by the external processing factories. To ensure that the quality of the fabricated products produced by the external suppliers complies with the required standards and contract specifications, the Group will assign a team of quality control staff to be stationed at the processing factories of these external suppliers to assist in monitoring the fabrication process and checking that the quality of the finished products meets the standards required by the Group. For further details on the Group’s control over the quality of its suppliers’ products, please refer to sub-section headed “Quality Control” in this section.

BUSINESS

In accordance with the requirements of the Buildings Department, the curtain wall systems will be subject to a series of tests by independent laboratories at various stages of the building project, such as performance tests and welding tests. Depending on the contract terms, project owners/customers may also require testing to be carried out on curtain wall systems, such as on-site water tests to check for water leakages.

As the Group does not employ direct labour to execute the installation works on site, it will procure subcontractors from its approved list to carry out the installation works. For further details on the Group’s subcontractors, please refer to the sub-section headed “Subcontractors” in this section.

Although the installation works will be carried out by the Group’s subcontractors, the Group is liable for the work of its subcontractors. In order to maintain the quality of the work of the subcontractors, the Group typically conducts on-site inspection of the work done, to ensure that any identified non-conformity is resolved and to evaluate their performance generally. For further details on the Group’s subcontractors, please refer to sub-section headed “Subcontractors – Control on subcontractors” in this section. In respect of work safety, the Group will appoint a safety officer or a safety supervisor for each construction site to oversee work safety and monitor the implementation of work safety measures at the construction site. A site inspection is conducted by the project manager on a weekly basis to ensure that work safety measures are implemented as required, and the Group will also appoint external consultants to perform safety audits on a regular basis. Pursuant to section 6BA of the Factories and Industrial Undertakings Ordinance, any workers who work on the construction site of the Group’s projects, regardless of whether he is an employee of the Group or the Group’s subcontractors, should have received safety training (referred to as mandatory basic safety training) and hold a valid construction industry safety training certificate (commonly known as a Green Card) before he can be employed to carry out construction work. The Group also conducts safety training on a regular basis to ensure that workers are aware of and refreshed about the safety requirements. Some of the Group’s customers may also offer extra safety training for the Group’s workers.

During the course of a project, customers of the Group may require additional services or amendments to the specifications, which will result in extra work to be performed by the Group. The Group generally confirms the variation orders with its customers by way of written confirmation. The quotation for variation orders will generally be further agreed upon between the Group and the customers.

For most of the Group’s design, supply and installation projects for new buildings, the Group generally receives monthly interim payments based on work undertaken during that month. In general, the Group will normally make an application for interim payment for the work done, and the appointed architects of the project owner/customer will examine the work done and issue a payment certificate to the Group. The Group will issue an invoice to the customer according to the payment certificate. Some of the Group’s customers will withhold usually 10% of each interim payment as retention money until the accumulated retention money reaches 5% of the total contract sum.

BUSINESS

Upon satisfactory completion of the installation works of whole project as set out in the contract, the architect for the building project will issue a Practical Completion Certificate. Generally, upon the issuance of the Practical Completion Certificate, half of the retention money of such project will be released to the Group, while the remaining half will be released to the Group upon the issuance of the certificate that identified defects in respect of the entire building project have been made good.

Post-project completion phase

The Group generally provides a defects liability period to its customers, which begins on the date of the Practical Completion Certificate and normally ranges from 12 to 24 months, subject to the relevant terms of the contracts. During the defects liability period, the Group is responsible, at its own cost, for remedial works that may arise from defective works or materials used. In order to protect the Group’s interest, the Group generally withholds 10% of each payment to its subcontractors as retention money. In general, the total amount of the retention money will not exceed 5% of the subcontracting fee. Subject to the terms of the relevant contract, the retention money will generally be released after the end of the defects liability period. At the end of the defects liability period, subject to identified defects or other faults in the building works having been rectified to the satisfaction of the architect for the building project, a certificate of completion of making good defects will be issued, which signifies that all works in respect of the project have been satisfactorily completed.

Apart from the defects liability period, the Group generally also provides a warranty on certain aspects, including but not limited to glazing and watertightness, for a period of approximately 10 to 15 years from the date of the Practical Completion Certificate or the end of the defects liability period, depending on the relevant terms of the contract.

Design, supply and installation projects for renovation works of existing buildings

The typical workflow of a renovation works project is similar to that of a design, supply and installation project for new buildings. Please refer to the flowchart set out in the section “Operating procedures – Principal Steps in a Design, Supply and Installation Project”.

BUSINESS

Project tendering stage

The Group is generally invited by the project owners (i.e. property developers) or customers to submit a tender or provide a quotation for renovation works on existing buildings. Details of the renovation works required, such as the location of the works, scope of works and material specification will generally be set out in the invitation. Such works include the design, supply and installation of aluminium windows and doors, curtain walls, glass walls, aluminium cladding, louvres, balustrade, and the necessary component parts. If necessary, the Group may conduct a site inspection. The Group is generally required to submit the tender or quotation within two to five weeks upon the receipt of the invitation. Upon confirmation of the engagement, the project owners/customers will issue an official works order or subcontract to confirm the engagement with the Group.

Planning and execution stage

In respect of renovation works projects, the Group will generally be responsible for the design, supply and installation of the required works. Similar to design, supply and installation projects for new buildings, the Group will form a project management team to oversee and manage the renovation works project. Once the materials and specifications are approved by the customer, the Group will procure the necessary materials and carry out the fabrication and processing works. The installation works at the site will be carried out by the Group’s subcontractors while the Group’s project management team will be responsible for overseeing and supervising the installation works.

Once the installation works are completed, the project owner/customers typically, via the appointed architects, will confirm that the renovation works have been duly completed by the Group.

Post-project completion stage

The Group generally provides a defects liability period to its customers, which begins on the date of the Practical Completion Certificate and normally ranges from 12 to 24 months, subject to the relevant terms of the contracts. During the defects liability period, the Group is responsible, at its own cost, for remedial works that may arise from defective works or materials used. In order to protect the Group’s interest, the Group generally withholds 10% of each payment to its subcontractors as retention money. In general, the total amount of the retention money will not exceed 5% of the subcontracting fee. Subject to the terms of the relevant contract, the retention money will generally be released after the end of the defects liability period. At the end of the defects liability period, subject to identified defects or other faults in the building works having been rectified to the satisfaction of the architect for the building project, a certificate of completion of making good defects will be issued, which signifies that all works in respect of the project have been satisfactorily completed.

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Apart from the defects liability period, the Group generally also provides a warranty on certain aspects, including but not limited to glazing and watertightness, for a period of approximately 10 to 15 years from the date of the Practical Completion Certificate or the end of the defects liability period, depending on the relevant terms of the contract.

Repair, maintenance and others

Repair and maintenance services of the Group are provided on a one-off basis and the customers are typically individual unit owners in respect of property development projects where the Group had previously acted as a subcontractor. The customer would generally request the Group to provide a quotation for the repair and maintenance service required, which mainly include repair or replacement of aluminium windows and sliding doors, repair or replacement of damaged components such as aged sealant, window and door hardware. Once the quotation is accepted by the customer, the Group will provide the relevant services and parts, and will issue an invoice to the customer upon completion of the works. The Group does not provide any warranty in respect of its repair and maintenance services. Others mainly represented mock-up.

CUSTOMERS

Profile of the Group’s customers

The Group’s customers are generally main contractors and property developers. During the Track Record Period, most of the geographical location of the projects from the Group’s customers were located in Hong Kong and represented 93.2%, 96.3% and 89.5% of the Group’s total revenue for the year ended 31 March 2016, 2017 and 2018, respectively. The remaining portion of the Group’s revenue was derived from customers in the PRC. The Group’s revenue derived from customers in Hong Kong was denominated in Hong Kong dollars, while the Group’s revenue derived from customers in the PRC was denominated in RMB.

Major customers

For each of the three years ended 31 March 2018, the percentage of the Group’s total revenue attributable to the Group’s largest customer amounted to approximately 42.7%, 29.9% and 36.0%, respectively, while the percentage of the Group’s total revenue attributable to the Group’s five largest customers, in aggregate, amounted to approximately 84.6%, 91.8% and 92.6%, respectively.

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

For the year ended 31 March 2016

	Revenue for the year	Approximate % of the Group’s total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$’000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Customer A	156,984	42.7	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A construction and engineering contractor headquartered in Hong Kong	5	44 days from certification by the quantity surveyor (representing 30 days for the developer to pay the main contractor, and 14 days for payment by the main contractor) and paid by bank transfer or by cheque
Hip Hing Construction Limited	96,315	26.2	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A contractor and construction services company located in Hong Kong	11	44 days (as above) and paid by bank transfer or by cheque
Hanison Construction Company Limited (“ Hanison Construction Company ”)	25,850	7.0	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A property developer and building contractor in Hong Kong, and is a subsidiary of Hanison	13	44 days (as above) and paid by bank transfer or by cheque

BUSINESS

	Revenue for the year	Approximate % of the Group's total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Customer D	17,017	4.6	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A building construction, project management and investment holding company, and is a subsidiary of a construction contractor listed in Hong Kong	11	44 days (as above) and paid by bank transfer or by cheque
Customer E	15,020	4.1	Provision of aluminium windows and doors works	A company established in the PRC and is principally engaged in the business of holding of the land use rights of the lands for an integrated property development project in Haining City, PRC	3	30 days and paid by bank transfer
Five largest customers in aggregate	<u>311,186</u>	<u>84.6</u>				

BUSINESS

For the year ended 31 March 2017

	Revenue for the year	Approximate % of the Group's total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Hip Hing Construction Limited	149,973	29.9	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A contractor and construction services company located in Hong Kong	11	44 days from certification by the quantity surveyor (representing 30 days for the developer to pay the main contractor, and 14 days for payment by the main contractor) and paid by bank transfer or by cheque
Customer A	145,414	29.0	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A construction and engineering contractor headquartered in Hong Kong	5	44 days (as above) and paid by bank transfer or by cheque
Customer D	78,071	15.6	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A building construction, project management and investment holding company, and is a subsidiary of a construction contractor listed in Hong Kong	11	44 days (as above) and paid by bank transfer or by cheque
Customer F	50,478	10.1	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A contractor company located in Hong Kong	12	44 days (as above) and paid by bank transfer or by cheque

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	Revenue for the year	Approximate % of the Group's total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Sanfield (Management) Limited	36,763	7.3	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A company engaged in building construction, and is a subsidiary of a property developer listed in Hong Kong	6	30 days upon issue of invoice and paid by cheque
Five largest customers in aggregate	460,699	91.8				

For the year ended 31 March 2018

	Revenue for the year	Approximate % of the Group's total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Customer F	151,547	36.0	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A contractor company located in Hong Kong	12	44 days from certification by the quantity surveyor (representing 30 days for the developer to pay the main contractor, and 14 days for payment by the main contractor) and paid by bank transfer or by cheque
Hip Hing Construction Limited	94,173	22.4	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A contractor and construction services company located in Hong Kong	11	44 days (as above) and paid by bank transfer or by cheque

BUSINESS

	Revenue for the year	Approximate % of the Group's total revenue for the year	Services rendered by the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Customer H	63,398	15.1	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A building contractor located in Hong Kong, which ultimate parent company is a PRC state-owned construction enterprise	7	44 days (as above) and paid by bank transfer or by cheque
Customer I	43,011	10.2	Design, supply and installation of curtain walls, aluminium windows and doors	A building contractor located in the PRC	2	30 days and paid by bank transfer
Sanfield (Management) Limited	37,900	9.0	Design, supply and installation of curtain walls, aluminium windows, doors and other products	A company engaged in building construction, and is a subsidiary of a property developer listed in Hong Kong	6	30 days upon issue of invoice and paid by cheque
Five largest customers in aggregate	390,029	92.6				

During the Track Record Period, other than Hanison Construction Company and Customer E, the Group's other top five customers during the Track Record Period are Independent Third Parties. Hanison Construction Company is a wholly-owned subsidiary of Hanison. Customer E is an indirect wholly-owned subsidiary of an indirect majority-owned subsidiary of CCM Trust, the Controlling Shareholder. During the Track Record Period, the Group was engaged by Hanison Construction Company in respect of the design, supply and installation of curtain walls, aluminium windows and doors principally in respect of the construction project The Grampian. The revenue from Hanison Construction Company accounted for approximately 7.0%, 0.9%, and 0.6%, respectively, of the Group's revenue for each of the three years ended 31 March 2018. During the Track Record Period, the Group was engaged by Customer E to provide aluminium windows and doors for an integrated development project in Haining City, the PRC. The revenue from Customer E accounted for approximately 4.1%, nil and nil, respectively, of the Group's total revenue for each of the three years ended 31 March 2018. The Directors confirm that the contracts awarded to the Group by Hanison Construction Company and Customer E were on normal commercial terms.

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Save as disclosed above and in the section headed “Continuing Connected Transactions” in this listing document otherwise, to the best of the knowledge of the Directors, none of the Directors, their close associates, or any Shareholders who owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest (direct or indirect) in any of the Group’s five largest customers during the Track Record Period. None of the Group’s major customers are also the Group’s suppliers.

Customer concentration

For each of the three years ended 31 March 2018, approximately 84.6%, 91.8% and 92.6%, respectively, of the Group’s total revenue was attributable to the Group’s five largest customers. The percentage of the Group’s total revenue attributable to the largest customer amounted to approximately 42.7%, 29.9% and 36.0%, respectively, during the same periods. Please refer to the section headed “Risk Factors – A significant portion of the Group’s revenue was generated from contracts awarded by a limited number of customers, and inability to retain business relationships with the existing customers or secure new business may materially and adversely affect the Group’s business and financial performance” in this listing document for the customer concentration risk.

The Directors consider that the Group’s business is sustainable despite such customer concentration due to the following reasons:

- according to the Ipsos Report, it is not uncommon for construction companies in Hong Kong to rely on a few customers due to the nature of the construction industry where a few major developers and main contractors dominate the property development market in Hong Kong. Considering the nature of the property development industry in Hong Kong in which the Group’s customers operate, the Group’s customer base which comprises of property developers and main contractors is relatively concentrated;
- the Group undertakes Design, Supply and Installation Projects of varying scale, with project periods normally ranging from approximately 12 to 24 months, therefore a customer with a single or a few sizeable Design, Supply and Installation Project(s) can easily become the largest customer of the Group in terms of revenue contribution to the Group for more than one financial year;
- some of the Group’s major customers which are Independent Third Parties (including Hip Hing Construction Limited, Customer D and Customer F) have long-term business relationships with the Group for over 10 years. The Directors believe that the Group’s operating history and long-term business relationships with these major customers bears testament to the quality of the Group’s services, and helps the Group to secure projects from different property developers and main contractors; and

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- the Group has been operating in the facade and curtain wall works industry in Hong Kong for over 20 years and has developed its network and connections within the construction industry during this time. Supported by the Group’s solid reputation, such connections have enabled the Group to expand its customer base. During the Track Record Period, the Group secured contracts or work orders from three new customers. For each of the three years ended 31 March 2018, these new customers in aggregate contributed approximately HK\$4.7 million, HK\$27.2 million and HK\$45.3 million to the Group’s revenue, respectively, representing approximately 1.3%, 5.4% and 10.8%, of the Group’s revenue for the corresponding year, respectively.

Pricing strategy

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

Salient terms of design, supply and installation contracts

The Group is generally engaged by its customers in its Design, Supply and Installation Projects on a project-by-project basis. The Directors consider that such arrangement is in line with the industry practice in Hong Kong. The terms of each Design, Supply and Installation Project contract entered into between the Group and its customers may vary. The salient terms of a typical Design, Supply and Installation Project contract are set out below:

Scope of work	:	The scope of services to be carried out by the Group and other project specifications or requirements are set out in the contract.
Duration of work	:	The Group will follow the pre-determined work schedule as set out in the contract, which may be extended from time to time pursuant to the terms of the contract.
Contract sum	:	In general, the Group’s project contracts set out a lump sum fixed price for carrying out the whole of the works as specified. No re-measurement will be conducted except for works conducted pursuant to variation orders issued by customers.
Subcontracting	:	Generally, the Group is not prohibited to engage subcontractors to carry out the works. The Group is primarily responsible for the works performed by its subcontractors.

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- Insurance : Depending on the terms of the contract, the Group or its customers are responsible for all necessary insurances for its subcontractors, such as employees’ compensation, contractors all risk insurance and third party liability insurance.
- Performance bond : Depending on the terms of the contract, the Group is required to provide a performance bond generally equivalent to approximately 10% of the total contract sum issued by banks or insurance companies in favour of the customers as security for the due performance and observance of the Group’s obligations under the relevant project. The performance bonds are normally released upon completion of the project or as specified in the relevant contract.
- Payment terms : The contracts will generally include the payment terms with the customers on a project-by-project basis. Progress payment application is generally submitted by the Group to the customer on a monthly basis. For further details regarding the payment terms, please refer to the sub-section headed “Customers – Credit policy” in this section.
- Defects liability period : The Group generally provides a defects liability period ranging from 12 to 24 months from the date of the Practical Completion Certificate. During the defects liability period, the Group is responsible, at its own costs, for remedial works which may arise from the defective works or materials used.
- Warranty : The Group generally provides a warranty of 10 to 15 years from the date of the Practical Completion Certificate or after the end of the defects liability period, depending on the relevant contract terms, during which the Group generally rectifies, without charge, any defects and deficiencies in the contracted works discovered after completion of the project.

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Credit policy

In respect of the Group’s Design, Supply and Installation Projects, the Group will generally make an application for monthly interim payment for the work done, and the appointed architects of the project owner/customer will examine the work done and issue a payment certificate to the Group. The Group will issue an invoice to the customer according to the payment certificate. It generally takes 30 to 44 days for the Group to receive payment after the issue of the payment certificate.

Some of the Group’s customers will withhold usually 10% of each interim payment as retention money until the accumulated retention money reaches 5% of the total contract sum. In general, half the retention money will be released upon practical completion of the project and the remaining half will be released after the defects liability period. The final account in respect of the project will also be issued to the Group by the customer after the defects liability period, and the outstanding balance presented in the agreed final account represents full and final settlement to the Group regarding the project.

SUPPLIERS

Profile of the Group’s suppliers

The Group’s suppliers generally include suppliers for (i) building materials used in its Design, Supply and Installation Projects, such as aluminium and steel products, and glass; (ii) fabrication of curtain wall – unitised system products; and (iii) providers of other miscellaneous services such as transportation, rental of machinery, and laboratory testing services. During the Track Record Period, all of the Group’s major suppliers were either located in Hong Kong or the PRC.

Major suppliers

For each of the three years ended 31 March 2018, the percentage of the Group’s total purchases attributable to the Group’s largest supplier amounted to approximately 13.9%, 22.5% and 24.5%, respectively, while the percentage of the Group’s total purchases attributable to the Group’s five largest suppliers, in aggregate, amounted to approximately 52.5%, 53.0% and 52.5%, respectively. The Group’s purchase amount from suppliers in Hong Kong was denominated in Hong Kong dollars, while the Group’s purchase amount from suppliers in the PRC was denominated in RMB.

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

For the year ended 31 March 2016

	Purchases for the year	Approximate % of the Group’s total purchases for the year	Products sold and/or services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$’000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Supplier A	17,805	13.9	Aluminium products and fabricator	Specialist curtain wall fabricator and metal coating fabricator headquartered in Hong Kong	13	30 days upon receipt of products and paid by cheque
Supplier B	14,522	11.3	Aluminium extrusion supply	Aluminium products manufacturer based in the PRC	16	40 days upon delivery of products and paid by cheque
Supplier C	14,384	11.2	Aluminium extrusion supply	Aluminium extrusion supplier	11	30 days upon receipt of products and paid by cheque
Supplier D	12,221	9.5	Aluminium extrusion supply	A subsidiary of an aluminium products manufacturer based in the PRC	8	30 days upon delivery of products and paid by cheque
Supplier E	8,492	6.6	Glass	A subsidiary of a glass products manufacturer listed in Hong Kong	18	30 days upon delivery of products and paid by cheque
Five largest suppliers in aggregate	67,424	52.5				

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For the year ended 31 March 2017

	Purchases for the year	Approximate % of the Group's total purchases for the year	Products sold and/or services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Supplier A–	37,777	22.5	Aluminium products and fabricator	Specialist curtain wall fabricator and metal coating fabricator headquartered in Hong Kong	13	30 days upon receipt of products and paid by cheque
Supplier D	23,879	14.2	Aluminium extrusion supply	A subsidiary of an aluminium products manufacturer based in the PRC	8	30 days upon delivery of products and paid by cheque
Schüco International (Beijing) Company Limited	12,662	7.5	Aluminium extrusion, ironmongery, fittings supply	A subsidiary of a proprietary supplier of aluminium window, door and facade systems headquartered in Germany	15	(Note)
Supplier G	7,575	4.5	Glass	Glass manufacturer headquartered in Hong Kong	9	30 days upon receipt of products and paid by cheque
Supplier H	7,033	4.2	Anchor bolts and nuts supply	A subsidiary of a construction and building maintenance products manufacturer headquartered in Liechtenstein	24	30 days upon receipt of invoice and paid by cheque
Five largest suppliers in aggregate	<u>88,926</u>	<u>53.0</u>				

BUSINESS

For the year ended 31 March 2018

	Purchases for the year	Approximate % of the Group's total purchases for the year	Products sold and/or services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Supplier D	29,202	24.5	Aluminium extrusion supply	A subsidiary of an aluminium products manufacturer based in the PRC	8	30 days upon delivery of products and paid by cheque
Schüco International (Beijing) Company Limited	11,353	9.5	Aluminium extrusion, ironmongery, fittings supply	A subsidiary of a proprietary supplier of aluminium window, door and facade systems headquartered in Germany	15	(Note)
Supplier A	8,741	7.3	Aluminium products and fabricator	Specialist curtain wall fabricator and metal coating fabricator headquartered in Hong Kong	13	30 days upon receipt of products and paid by cheque
Supplier I	8,673	7.3	Glass	A subsidiary of a glass products manufacturer listed in the PRC	1	30 days upon delivery of products and paid by cheque
Supplier C	4,553	3.8	Aluminium extrusion supply	Aluminium extrusion supplier	11	30 days upon receipt of products and paid by cheque
Five largest suppliers in aggregate	62,522	52.5				

Note: Although the supplier has provided its consent to the Group to disclose its identity and certain information regarding its relationship with the Group, it did not consent to the disclosure of the credit terms and payment method for reasons of confidentiality.

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

Basis of selection of suppliers

The Group maintains an internal list of approved suppliers, which is reviewed by the project team, contracting team and procurement team on an annual basis. As at the Latest Practicable Date, the Group had more than 300 approved suppliers on its internal list of approved suppliers. The Group selects its suppliers based on a number of criteria, including but not limited to the quoted price, quality of goods and/or services provided, the supplier’s relevant work credentials, and prior working relationship with the Group.

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

Salient purchase terms

Framework agreement with Schüco

The Group has entered into a framework agreement with Schüco, which is non-project specific, and concerns the supply of its proprietary products. The agreement sets out the framework terms on which the Group can purchase aluminium alloy products, hardware accessories and ancillary accessories for the supplier’s proprietary products, including pricing policies, terms of payment and settlement, delivery period and terms, and product returns. Pursuant to the framework agreement, the supplier agrees to provide technical support and training to the Group in respect of the fabrication and installation of the proprietary products. There is no minimum purchase commitment under the framework agreement. The framework agreement does not have a fixed term and will continue until further agreement of the parties thereto. The Directors confirm that there has been no breach by the Group of the framework agreement during the Track Record Period.

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Others

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

Material specification	:	A description of the materials required such as the type of materials, quantity, size and technical specification of the products.
Payment terms	:	Cash on delivery or in accordance with the Group’s suppliers credit policy.
Deposit	:	Depending on the terms of the contract, majority of the Group’s suppliers do not require any deposit, but some of the Group’s suppliers may require 5% to 50% of the total purchase order amount as deposit.
Delivery	:	<p>In respect of materials for processing, the Group’s suppliers generally deliver the goods directly to the Group’s fabrication plant in Huizhou, the PRC, or to the external fabricator’s processing factories, as the case may be.</p> <p>In respect of fabricated curtain wall – unitised system products supplied by the Group’s external suppliers, the Group’s suppliers will generally deliver the finished goods directly to the construction site.</p>
Warranty	:	For certain materials such as glass and finishes of aluminium, a warranty of 5 to 15 years will be provided by the suppliers.

Credit policy

During the Track Record Period, all of the Group’s major suppliers were located either in Hong Kong or the PRC, and most of the purchase orders made by the Group were denominated in Hong Kong dollars, RMB, or US dollars. The credit period granted to the Group by its suppliers ranges from 0 to 30 days upon receipt of products or 0 to 40 days upon delivery of products. The Group usually settles the payment by cheque or import invoice financing upon delivery of the products, but sometimes the Group pays cash upon delivery of the products.

BUSINESS

Inventory

The Group will procure materials for use in its Design, Supply and Installation Projects after the contracts are awarded. As the Group’s products are designed and tailor-made for each Design, Supply and Installation Project, the Group generally does not maintain a finished product inventory for prospective future projects.

SUBCONTRACTORS

Profile of the Group’s subcontractors

The Group engages external subcontractors to perform site installation works for its Design, Supply and Installation Projects. During the Track Record Period, the Group’s major subcontractors were located in Hong Kong.

Major subcontractors

For each of the three years ended 31 March 2018, the percentage of the Group’s total subcontracting fees paid to the Group’s largest subcontractor amounted to approximately 13.5%, 16.5% and 25.4%, respectively, while the percentage of the Group’s total subcontracting fees paid to the Group’s five largest subcontractors, in aggregate, amounted to approximately 49.9%, 56.1% and 78.8%, respectively.

Set out below is a breakdown of the Group’s subcontracting fees paid to the Group’s top five subcontractors during the Track Record Period and their background information:

For the year ended 31 March 2016

	Subcontracting fees paid during the year	Approximate % of the Group’s subcontracting fees paid during the year	Services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$’000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Hing Wah Aluminium Glass Company	11,491	13.5	Site installation	Provider of labour for site installation works located in Hong Kong	6	35 days upon receipt of invoice, paid by cheque

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	Subcontracting fees paid during the year	Approximate % of the Group's subcontracting fees paid during the year	Services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Subcontractor B	11,054	13.0	Site installation	A contractor in design and construction of aluminium works located in Hong Kong	6	35 days upon receipt of invoice, paid by cheque
Subcontractor C	6,775	8.0	Site installation	Provider of labour for site installation works located in Hong Kong	10	35 days upon receipt of invoice, paid by cheque
Subcontractor D	6,773	8.0	Site installation	Provider of labour for site installation works located in Hong Kong	20	35 days upon receipt of invoice, paid by cheque
Ka Wang Metal Engineering Company Limited	6,358	7.4	Site installation	A contractor in design and construction of aluminium works located in Hong Kong	10	35 days upon receipt of invoice, paid by cheque
Five largest subcontractors in aggregate	42,451	49.9				

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For the year ended 31 March 2017

	Subcontracting fees paid during the year	Approximate % of the Group's subcontracting fees paid during the year	Services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Subcontractor F	20,808	16.5	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Subcontractor G	14,654	11.6	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Hing Wah Aluminium Glass Company	12,190	9.7	Site installation	Provider of labour for site installation works located in Hong Kong	6	35 days upon receipt of invoice, paid by cheque
Ching Fung Engineering Company Limited	11,731	9.3	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Subcontractor I	11,290	9.0	Site installation	Provider of labour for site installation works located in Hong Kong	3	35 days upon receipt of invoice, paid by cheque
Five largest subcontractors in aggregate	70,673	56.1				

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For the year ended 31 March 2018

	Subcontracting fees paid during the year	Approximate % of the Group's subcontracting fees paid during the year	Services provided to the Group	Background and principal business	Years of business relationship	Typical credit terms and payment method
	<i>HK\$'000</i>				<i>(approximately)</i>	<i>(approximately)</i>
Subcontractor F	26,455	25.4	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Subcontractor G	16,975	16.3	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Ching Fung Engineering Company Limited	15,271	14.7	Site installation	Provider of labour for site installation works located in Hong Kong	5	35 days upon receipt of invoice, paid by cheque
Subcontractor J	11,924	11.5	Site installation	Provider of labour for site installation works located in Hong Kong	20	35 days upon receipt of invoice, paid by cheque
Subcontractor I	11,288	10.9	Site installation	Provider of labour for site installation works located in Hong Kong	3	35 days upon receipt of invoice, paid by cheque
Five largest subcontractors in aggregate	81,913	78.8				

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

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Reasons for subcontracting arrangement

According to the Ipsos Report, it is common in the construction industry in Hong Kong and the PRC for facade and curtain wall works contractors to further engage a subcontractor which has its own team of direct labour for on-site installation. As the site installation works of the Design, Supply and Installation Projects of the Group is labour intensive, it may not be cost effective for the Group to directly undertake the works involved. Therefore, the Group does not employ any direct labour but subcontracts all the site installation works to external subcontractors. During the Track Record Period, the subcontracting and other charges paid to subcontractors for installation works accounted for approximately 30.7%, 24.3% and 27.6% of the Group’s total cost of sales for each of the years ended 31 March 2016, 2017 and 2018, respectively.

Basis of selection of subcontractors

The Group maintains a list of approved subcontractors, which is reviewed by the project team on an annual basis. As at the Latest Practicable Date, the Group had more than 270 approved subcontractors for site installation works on its internal list of approved subcontractors. Subcontractors are selected based on a number of criteria, including but not limited to the tender price, technical capability, relevant work credentials and prior working relationship with the Group. When subcontractors are required for a particular project, the Group will typically invite tenders from different subcontractors for review and select the subcontractor based on their experience relevant to the particular project, the tender amount and technical viability.

During the Track Record Period, the Group had engaged over 90 subcontractors for site installation works. Therefore, the Directors consider that the Group has a wide pool of subcontractors to select from and the Group would not experience material difficulties in finding substitute subcontractors if necessary. For the sensitivity analysis illustrating the impact of hypothetical fluctuations in the Group’s subcontracting and other charges, please refer to the section headed “Financial Information – Principal components of results of operations – Cost of sales” in this listing document.

BUSINESS

Control over subcontractors

The Group remains accountable to its customers for the performance and quality of work rendered by the subcontractors engaged by the Group. To ensure the quality of the subcontractors’ work, the Group has in place the procedures described in the paragraphs below.

As set out in the sub-section headed “Operating procedures – Design, supply and installation projects for new buildings – Project planning and execution phase”, the Group has a project management team to oversee each of its projects, which include a site supervisor and a safety manager who are assigned to monitor and supervise the working process of the subcontractors and ensure that they have met the safety and workmanship requirements and are responsible for coordination work on the construction site. Furthermore, the project manager shall arrange a joint inspection with the customer upon completion of the work done by the subcontractors to ensure that they are in line with the contract design.

For Design, Supply and Installation Projects in Hong Kong, the Group requires all of its subcontractors to follow the applicable laws and regulations in relation to occupational health and safety at the construction site. According to the statutory requirements, all of the personnel at the construction site, including the Group’s own personnel and the employees of the Group’s subcontractors, are required to attend a construction industry safety training session on occupational health and safety regulations at the construction site and obtain the training certificate before entering the construction site.

For the Group’s Design, Supply and Installation Projects in the PRC, generally, the Group also requires all of its subcontractors to follow the applicable laws and regulations in relation to occupational health and safety at the construction site. The Group also has in place in-house construction management procedures in the PRC. The management team will assess and select the subcontractor according to their quotes, abilities, capabilities, past experience and job reference, etc.

For further information on the Group’s internal rules and regulations in relation to work quality, occupational health and safety, and environmental protection, please refer to the sub-sections headed “Quality control”, “Occupational health and safety control” and “Environmental compliance” in this section.

BUSINESS

Salient terms of subcontracting agreements

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

Scope of work	:	The scope of services and types of works to be carried out by the subcontractor will be specified in the subcontracting agreement.
Contract sum	:	<p>In respect of lump sum fixed price contract, the final contract sum will be agreed upon at engagement with certain variations.</p> <p>In respect of remeasurement contracts, the final contract sum will be determined based on agreed unit rates and measurement of actual quantities of work done.</p>
Insurance	:	Depending on the terms of the contract, the Group or its customers are responsible for all necessary insurances for its subcontractors, such as employees’ compensation insurance, contractors all risk insurance and third party liability insurance.
Payment terms	:	Please refer to the sub-section headed “Subcontractors – Credit policy” in this section.
Retention money	:	The Group generally withholds 10% of each interim payment payable to the subcontractors as retention money in order to ensure that the Group’s subcontractors will be responsible for their defective works. In general, the total amount of the retention money will not exceed 5% of the subcontracting fee. Subject to the terms of the relevant contract, the retention money will generally be released after end of defects liability period.

BUSINESS

Termination : Generally, subject to the terms of the respective contracts, the Group may terminate the subcontracting agreement under the following circumstances, which include but are not limited to: (i) if the subcontractor fails to perform its obligations under any provision of the subcontracting agreement; (ii) if the subcontractor does not supply sufficient labour in respect of the contracted works and fails to remedy the situation within the time period requested by the Group, or the subcontractor leaves the work uncompleted or fails to complete the work according to schedule; (iii) the Group finds that the subcontractor has delayed the work; (iv) the subcontractor is unable to continue and complete the work; or (v) the main contract in respect of the project is terminated for any reason.

Credit policy

The Group requires its subcontractors to submit a payment application for interim payments on a regular basis, depending on the payment terms agreed between the Group and its customers. The payment application generally includes the summary of works done, the workers’ acknowledgement of received salary, and bank-in slips for workers’ salaries, by the Group’s subcontractors during the period covered by the payment application. The quantity survey department of the Group will evaluate and assess the actual work performed by the subcontractors and prepare the payment certificate and calculation of breakdown, which are then reviewed by the project manager. Once the payment certificate is agreed and confirmed with the subcontractors, the Group will then prepare the payment accordingly. Upon the final completion of the project, the Group will issue a final account to its subcontractors. Once the final account is agreed and confirmed with the subcontractors, the Group will prepare the payment accordingly.

During the Track Record Period, all of the Group’s major subcontractors were located in Hong Kong and most of the subcontracting agreements are denominated in Hong Kong dollars. The credit period granted to the Group by its subcontractors is typically 35 days upon receipt of the invoice and the Group usually settles the payment to its subcontractors by cheques.

SALES AND MARKETING

The Group generally relies on its connections and relationships with existing customers and customer referrals to secure new projects. During the Track Record Period, the Group secured new business mainly through direct invitations for tendering by customers, but did not have a dedicated sales and marketing team in Hong Kong.

BUSINESS

MARKET AND COMPETITION

According to the Ipsos Report, major opportunities in the facade and curtain wall works industry are driven by the Hong Kong government investments on infrastructure, and the promotion of energy efficient buildings by the Hong Kong government. The facade and curtain wall market in Hong Kong is driven by architects who produce designs which demand new production and material technologies. In the PRC, the expansion of the property market in the PRC and the preferences of property developers are the key drivers of the facade and curtain wall works industry. For further information regarding the competitive landscape of the industry in which the Group operates, please refer to the section headed “Industry Overview” of this listing document.

QUALITY CONTROL

The Group places a strong emphasis on quality of its products and has implemented a comprehensive quality control system. The Group’s quality control measures are implemented throughout the fabrication process, from the procurement of materials to packaging:

- Suppliers for materials – the Group maintains an internal list of approved suppliers, which is reviewed by the project team, contracting team and procurement team on an annual basis. Please refer to the sub-section headed “Suppliers” for details of the Group’s suppliers. During the Track Record Period, the Group had also assigned quality control staff to be stationed at the Group’s glass suppliers during the fabrication process to manage the quality of the materials supplied to the Group. To the extent the Group does not have its own quality control team stationed at a supplier’s factory, the Group will arrange to conduct regular visits to the factory of the supplier to conduct inspections and quality checks.
- Suppliers for fabrication of curtain wall – unitised system products – the Group will generally assign a team of quality control staff to be stationed at the processing factories of some of the Group’s suppliers during the fabrication process to assist in monitoring the production process of the curtain wall products and checking that the quality of such products meets the standards required by the Group. To the extent the Group does not have its own quality control team stationed at a supplier’s factory, the Group will arrange to conduct regular visits to the factory of the supplier to conduct inspections and quality checks. The Group’s quality control staff will inspect the semi-finished and finished products produced by the supplier on a regular basis, and if any problems are found, the Group’s quality control staff will promptly work with the supplier to resolve the problem, in order to ensure that the finished product meets the Group’s standards.

BUSINESS

- Fabrication process at the Group’s self-owned fabrication plant – the Group carries out various inspections and checks at each principal stage of the fabrication process, including inspections of the materials delivered by the suppliers prior to processing, inspections after each of stage of cutting/drilling/washing/assembly during the fabrication process, and final checks are conducted before the products are packed for delivery to the construction sites. These inspections and checks are carried out to ensure that the finished products comply with the customers’ specifications and the Group’s quality standards, and are free from material defects.
- Subcontractors – the Group selects subcontractors based on certain criteria, including the tender price, technical capability, relevant work credentials and prior working relationship with the Group. In respect of subcontractors for installation works, the Group will monitor the subcontractors’ works at the construction site. Please refer to the sub-section headed “Subcontractors – Control over subcontractors” for further details.

Million Hope Industries (HK), one of the Group’s principal operating subsidiaries, has held the ISO 9001 certificate for quality management since 1998.

The Group’s business is operated under a set of procedures that complies with the ISO9001 quality management standards. Some of the Group’s customers will also send their quality control staff to conduct quality inspections of the Group’s products.

LICENCES AND PERMITS

As at the Latest Practicable Date, the Group has obtained the following licences and qualifications that are material to the Group’s business operations:

Licence	Holder	Issuing authority	Type(s) of works covered	Expiry date
<i>Hong Kong</i>				
Registered Minor Works Contractor	Million Hope Industries (HK)	Buildings Department	Type A (Alteration and Addition Works) (Classes II & III) Type E (Works relating to Structures for Amenities) (Classes II & III) Type F (Finishes Works) (Classes I, II & III) (<i>Notes 1 and 2</i>)	13 November 2018
Registered Subcontractor	Million Hope Industries (HK)	Construction Industry Council	Window fabrication and installation (aluminium window/louvers, curtain wall/glass wall, others (fire rated window)); Metal work (stainless steel work); Metal work (metal roof/skylight/cladding/space frame)	16 June 2023

BUSINESS

Licence	Holder	Issuing authority	Type(s) of works covered	Expiry date
<i>The PRC</i>				
Project Design Qualification Certificate (工程設計資質證書)	Million Hope (Huizhou)	Department of Housing, and Urban and Rural Construction of Guangdong Province (廣東省住房和城鄉建設廳)	Architectural decoration project design qualification (Class B), architectural curtain wall project design qualification (Class B)	6 August 2021
Construction Enterprise Qualification Certificate (建築業企業資質證書)	Million Hope (Huizhou)	Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality (惠州市住房和城鄉規劃建設局)	Class II specialised contracting qualification for architectural projects, Class II specialised contracting qualification for architectural curtain wall projects	6 September 2021
PRC Customs Declaration Entity Registration Certificate (中華人民共和國海關報關單位註冊登記證書)	Million Hope (Huizhou)	Shenzhen Customs (深圳海關)	N/A	N/A

Notes:

- Under the Minor Works Control System implemented by the Buildings Department, minor works are classified into three classes according to their scale, complexity and risk to safety and are subject to different degrees of control. Minor works are grouped into seven types (i.e. Type A, B, C, D, E, F and G) according to their nature. The size, location and respective requirements of each item of minor works are set out in Schedule 1 of the Building (Minor Works) Regulation.
- As at the Latest Practicable Date, the technical director is Mr. Lee Cheuk Hung, and the authorised signatory is Mr. Wong Yuen On with registered type of minor works Type F (Classes I, II and III), Types A and E (Classes II and III).

BUSINESS

Hong Kong

Renewal of the registration of Registered Minor Works Contractors is required every three years while renewal of the registration of Registered Subcontractors is required every two years. The Directors confirm that the Group did not experience any material difficulties in obtaining and/or renewing such licences, permits, consents and approvals. Further, the Directors confirm that they are not aware of any circumstances that would significantly hinder or delay the renewal of such licences, permits, consents and approvals.

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

- (i) according to the practice note issued by the Buildings Department, when there is no technical director acting for the contractor, the contractor should apply for appointment of replacement of technical director within a reasonable period of time. In the event Mr. Lee Cheuk Hung retires or resigns, Million Hope Industries (HK) intends to appoint Mr. Chuk Kin Lun as the technical director. The Directors consider that Mr. Chuk Kin Lun possesses sufficient academic qualifications and industry experience to satisfy the relevant requirements specified by the Buildings Department; and
- (ii) according to the practice note issued by the Buildings Department, a minimum of one person has to be appointed as the authorised signatory to act for the Registered Minor Works Contractor for the purposes of the Buildings Ordinance. In case of retirement or resignation of Mr. Wong Yuen On, Million Hope Industries (HK) intends to appoint Mr. Chuk Kin Lun as the authorised signatory. The Directors consider that Mr. Chuk Kin Lun possesses sufficient academic qualifications and industry experience to satisfy the relevant requirements specified by the Buildings Department.

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

BUSINESS

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

The PRC

Pursuant to the relevant PRC laws and regulations, Million Hope (Huizhou) previously held a Project Design and Construction Qualification Certificate, which was replaced with a Project Design Qualification Certificate, which is valid until 6 August 2021, and a Construction Enterprise Qualification Certificate, which is valid until 6 September 2021. Million Hope (Huizhou) may apply for renewal of such certificates at the time of their expiration in accordance with the applicable PRC laws and regulations.

So far as the Directors are aware, the Group has obtained all necessary licences, permits, consents and approvals for the Group’s principal business operations in Hong Kong and the PRC respectively and all of them were, during the Track Record Period and up to the Latest Practicable Date, valid.

BUSINESS

EMPLOYEES

Number of employees by function

As at 31 March 2016, 2017 and 2018 and the Latest Practicable Date, the Group had a total of 279, 263, 253 and 261 employees, respectively. All of the employees of the Group are stationed in Hong Kong and the PRC. The following table sets forth a breakdown of the number of the Group’s employees by function as at the Latest Practicable Date:

	As at the Latest Practicable Date
Hong Kong	
Management (<i>Note 1</i>)	2
Project Management	60
Design	17
Quantity survey (<i>Note 2</i>)	13
Maintenance	4
Human resources and administration	4
Purchasing	3
Information Technology	1
Safety and environmental	2
Corporate social responsibility and corporate communications (<i>Note 3</i>)	1
Accounting and finance (<i>Note 3</i>)	4
Sub-total	111
The PRC	
Management	2
Production planning	9
Project	1
Production	61
Quality control	18
Quantity survey	7
Warehousing	13
Technical	17
Human resources and administration	14
Purchasing	4
Accounting and finance	4
Sub-total	150
Total	261

Notes:

1. Management in Hong Kong references Mr. Chuk Kin Lun and Mr. Lee Cheuk Hung. During the Track Record Period, Mr. Chuk was an employee of the Hanison Group but worked predominantly for the Group but had some responsibilities within other Hanison Group companies. Mr. Chuk has transferred to the Group since 1 July 2018 and has entered into a full time employment contract with the Group.

BUSINESS

2. During the Track Record Period, certain staff of this department worked predominantly for the Group but had some responsibilities for other Hanison Group companies. These arrangements have been replaced by full time employment contract with the Group since 1 July 2018.
3. During the Track Record Period, certain staff of these departments worked predominantly for the Group but had some responsibilities for other Hanison Group companies. These arrangements have been replaced by full time employment contract with the Group since 1 June 2018.

Relationship with employees

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

During the Track Record Period and up to the Latest Practicable Date, the Group had a labour union established in the PRC. The Directors confirm that the Group had not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor had the Group experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period.

Recruitment policy

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

Training and remuneration policy

The Group enters into separate employment contracts with each of its employees. The remuneration package offered to the Group's employees generally includes basic salaries and discretionary bonuses, and depending on the position, cash allowances. The Group determines the commencing salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts an annual review on salary increase, discretionary bonuses and promotions based on, including but not limited to, the performance of each employee, and the profitability of the Group. The Group provides on-the-job training to its employees and sponsors its employees to attend various external training courses.

BUSINESS

OCCUPATIONAL HEALTH AND SAFETY CONTROL

Occupational health and safety control measures

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

The Group’s occupational health and safety policy is reviewed on an annual basis. The Group has established a site safety management committee, which is responsible for, among other things, monitoring the implementation of the safety plan, review accident statistics and identify trends and probable causes of accidents so as to recommend measures to prevent recurrence, to co-ordinate the safety measures of subcontractors working on site, to discuss the contractor’s monthly safety report, etc. The Group has also established a site safety committee, which is responsible for, among other things, ensuring the implementation of the safety plan, reviewing and monitoring the effectiveness of the safety and health measures. Meetings of the site safety management committee and site safety committee are held monthly.

The executive Directors and the senior project managers are the top management who lead the safety performance management, while the project manager is generally responsible for the implementation of the health and safety plan. Some of the health and safety measures implemented by the Group include, but are not limited to:

- requiring each employee of the contractor or of any subcontractor who shall carry out work in the relevant construction site must have completed the mandatory basic safety training course for the construction industry under the Factories and Industrial Undertakings Ordinance and hold the relevant valid certificate (i.e. the “Green Card”) whilst working on the site;
- ensuring that all workers are given a site specific induction training and refresher to explain the safety and health policy when they commence work at the construction site, which contents of the training generally include the health and safety policy, special characteristics of the works and inherent hazards on the site, highlights of particular safety measures and use of personal protective equipment, emergency procedures and first-aid facilities, and reporting of accidents and injury compensation procedures;

BUSINESS

- all managers and project coordinator foremen shall receive appropriate safety management training or safety supervisor training organised by a competent organisation such as the Construction Industry Council Training Academy or the Occupational Safety and Health Council;
- displaying of posters, hazard and warning signs, emergency and rescue procedures, fire notices etc., at various points throughout the construction site;
- weekly joint safety inspections with the architect’s representative or the main contractor and the Group’s project team members and safety staff, and the subcontractors’ safety representatives;
- weekly safety walks designed to identify unsafe conditions and practices, and breaches of statutory requirements, will be carried out by the project manager, project coordinator, general foreman, safety supervisor and safety officer. The safety officer/safety supervisor inspections will be carried out based on a comprehensive checklist and a written report will be prepared as soon as practicable after the inspection. The checklists and inspection reports shall comply with the requirements of the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations and incorporate a follow up procedure to ensure that any defects identified have been promptly and satisfactorily remedied;
- requiring subcontractors to provide information on their safety policy and safety track record when submitting bids to ensure that only subcontractors with high safety standards are selected for the subcontracted work;
- providing each subcontractor with the Group’s safety and health policy, safety plan, in-house rules and regulations and emergency plan, and conducting pre-work safety meetings to deliver the company and project owners’/main contractors’ safety rules and procedures applicable to the subcontractors’ activities;
- requiring subcontractors to have a person or team in place to co-ordinate all aspects of the contract, including health and safety measures on site, and ensuring that all tools, plant, equipment, substances and materials used or supplied by subcontractors and suppliers comply with the relevant statutory requirements;
- monthly evaluation of the safety performance of the subcontractors shall be conducted;
- if the subcontractor is found to be in breach of the relevant safety regulations or in-house rules, the Group may suspend the works until the unsafe condition is remedied, and may impose a penalty on the subcontractor.

BUSINESS

In addition, the Group has in place in-house construction management procedures in respect of its projects in the PRC. Such procedures include, but are not limited to, the Group preparing a set of construction safety management measures prior to the commencement of the works, arranging for the relevant workers to attend safety training on commencement of the works and at regular intervals, keeping relevant records of workers operating specialist and mechanical equipment, and lifting and hoisting machinery. The safety officer will conduct regular safety inspections, maintain appropriate records, and ensure that any defects identified are rectified promptly.

The Group normally conducts daily on-site inspections for its Design, Supply and Installation Projects in Hong Kong and in the PRC. In addition, the Group provides its employees with, and subsidises its employees to attend, occupational safety education and training organised by it and by external parties to enhance their awareness of work safety.

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

The Group maintains an internal record of accidents. For each of the years ended 31 March 2016, 2017 and 2018 and for the period from 1 April 2018 up to the Latest Practicable Date, the Group recorded one, seven, thirteen and zero workplace accidents in Hong Kong and the PRC, respectively, which gave rise or may give rise to potential employees’ compensation and personal injury claims.

The following table sets forth the nature of the 21 accidents that occurred during the Track Record Period and up to the Latest Practicable Date:

Nature of accident	Number of accidents
<i>In Hong Kong</i>	
Trapped between objects	4
Injury whilst lifting or carrying	2
Slip, trip or fall on same level	6
Injury by shattered glass fragments	1
Stepping on object	2
<i>In the PRC</i>	
Injury in fabrication plant in PRC during production	6
	21

BUSINESS

In Hong Kong, injured workers may claim against the Group pursuant to the Employee’s Compensation Ordinance and/or common law. With respect to injuries where the injured workers had only made an employees’ compensation claim, the compensation paid to the injured workers under the Employees’ Compensation Ordinance would not exempt the liabilities of the Group under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury under common law is three years from the date of the relevant accident. As such, it is still possible for the injured worker to instigate claims against the Group under common law, provided that the limitation period has not yet expired as at the Latest Practicable Date. On the other hand, the compensation paid to such injured worker, if any, would be reduced and off-set by the compensation already paid to the worker under the Employees’ Compensation Ordinance.

In the PRC, once a workplace accident has happened, the employer, and in case of the employer’s failure to do so, the injured worker (or his/her close relatives or the trade union), shall apply to the relevant social insurance administration department for recognising a work-related injury. Upon the recognition of the work-related injury, compensation will be made from the work-related injury fund to the injured worker for medical treatment, lump sum payments for permanent incapacity or death, and other payments set out in the Regulations on Work-Related Injury Insurance (工傷保險條例). The employer will still be liable for compensating the injured worker for certain medical leave wages and other payments required by the Regulations on Work-Related Injury Insurance. In the event the injury is not recognised as a work-related injury, the injured worker may claim compensation against the employer under the PRC Tort Law (中華人民共和國侵權責任法). As at the Latest Practicable Date, compensation has been paid to the relevant employees in the PRC in respect of the abovementioned six accidents that occurred in the Group’s fabrication plant in Huizhou, the PRC, during the Track Record Period, and there are no outstanding or potential claims against the Group in this relation.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, the Group did not experience any significant incidents or accidents in relation to workers’ safety. For further details on outstanding litigation and potential claims of the Group relating to workplace accidents, please refer to the sub-section headed “Litigation and potential claims” in this section.

BUSINESS

Analysis on accident rate

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

	Industry average in Hong Kong	The Group
	(Note 1)	(Note 2)
2015		
Accident rate per 1,000 workers	39.1	0.02
Fatality rate per 1,000 workers	0.200	0
2016		
Accident rate per 1,000 workers	34.5	0.04
Fatality rate per 1,000 workers	0.093	0
2017		
Accident rate per 1,000 workers	32.9	0.08
Fatality rate per 1,000 workers	0.185	0

Notes:

1. The figures are based on the Occupational Safety and Health Statistics Bulletin No. 17 (August 2017) and No. 18 (August 2018) published by Occupational Safety and Health Branch, Labour Department, in which the accident rate is calculated as the number of industrial accidents during the year divided by the employment size which are based on the Quarterly Report of Employment and Vacancies Statistics published by the Census and Statistics Department.
2. The Group's accident rate is calculated by taking the number of industrial accidents during the year divided by the estimated number of staff members and site workers of the Group, and multiplied by 1,000. The estimated number of staff members and site workers of the Group during the year is based on estimation on monthly staff members and site workers deployed by the Group.

The Directors confirm that to the best of their knowledge, information and belief, there is no available official data for industry average for construction accidents and related fatalities in the PRC.

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

	LTIFR (Notes)
For the year ended 31 March 2016	25.00
For the year ended 31 March 2017	52.08
For the year ended 31 March 2018	70.31

Notes:

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

BUSINESS

ENVIRONMENTAL COMPLIANCE

Environmental compliance measures

The Group’s operations are subject to certain environmental requirements pursuant to the laws of Hong Kong and the PRC, including air and water pollution control, noise control, and waste disposal. For further details of the regulatory requirements, please refer to the sections headed “Regulatory Overview – I. The Laws and Regulations of Hong Kong – Others – Environmental Laws and Regulations” in this listing document “Regulatory Overview – The Laws and Regulations of the PRC – Environmental Protection”.

The Group recognises the importance of environmental protection and implements an in-house environmental management policy to ensure proper management of environmental compliance of relevant laws and regulations, according to which, the Group places high importance to the following measures:

- (i) Segregation of solid waste according to regulatory requirements for recycling by qualified institutions;
- (ii) Segregation and storage of hazardous chemicals in specific areas with proper protective measures;
- (iii) Monitoring, assessing and controlling noise pollution, fumes, smokes, obnoxious gas and water drainage;
- (iv) Regular maintenance of equipment which would incur waste water, dust, fumes, smokes and obnoxious gas;
- (v) Management of the staff working environment; and
- (vi) Formulating resource-friendly plans.

The Group has also implemented the ISO 14001 environmental management system in respect of its business operations.

Track record in relation to environmental compliance

For the three years ended 31 March 2016, 2017 and 2018, the aggregate annual costs of compliance with applicable environmental laws and regulations in Hong Kong and the PRC were approximately HK\$30,000, HK\$57,000 and HK\$54,000, respectively. The Group does not expect that the costs to be incurred on environmental compliance going forward would materially deviate from the level of 2018.

BUSINESS

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

INTELLECTUAL PROPERTY

Trademarks

As at the Latest Practicable Date, the Group had registered one trademark in Hong Kong, nine trademarks in the PRC, and was applying for one trademark in Hong Kong and three trademarks in the PRC. For further details, please refer to the section headed “General Information – Intellectual property rights of the Group” in Appendix V of this listing document.

Domain name

As at the Latest Practicable Date, the Group had registered three domain names, being millionhope.com, millionhope.com.hk, and millionhope.cn. For further details, please refer to the section headed “General Information – Intellectual property rights of the Group” in Appendix V to this listing document.

INSURANCE

During the Track Record Period, the Group maintains insurance coverage against, among other things, (i) employees’ compensation; (ii) group personal accident insurance; (iii) motor vehicles insurance; and (iv) property insurance in respect of its fabrication plant in Huizhou, the PRC.

During the Track Record Period and up to the Latest Practicable Date, the Group had been or is involved in certain claims against the Group in relation to employees’ compensation and personal injuries in Hong Kong, and it is expected that the amounts claimed pursuant to such claims will be covered by the insurance held by the Group or the relevant main contractor. For further details about such claims, please refer to the sub-section headed “Litigation and potential claims” in this section.

BUSINESS

The Group is also obliged to provide social insurance for its PRC employees pursuant to the PRC social security regulations, and as at the Latest Practicable Date, the Group has maintained social insurance schemes and is required to make contributions for its PRC employees towards five categories of insurance, including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

The Directors consider that the existing insurance coverage is adequate and consistent with the industry norm having regard to the Group’s current operations and the prevailing industry practice.

PROPERTIES

Owned properties

As at the Latest Practicable Date, the Group owned the following properties:

Location	Gross floor area	Usage	Market value as at 31 August 2018 (note 1) (HK\$’000)
An industrial complex located at Huanzhen Road, Shangxia Development Zone, Shuikou, Huizhou, Guangdong Province, The PRC	12,645.8 m ²	Workshop, dormitory, office	32,200
Offices A, B, C, D, E, F, G, H, I, J, K, L, M, N and P on 20th Floor, and car parking space numbers P50 and P51 on Basement Floor, Kings Wing Plaza 1, No. 3 On Kwan Street, Shatin, Hong Kong	14,981 sq.ft.	Office, car park. Offices A, B, J, K, L, M, N and P are occupied by the Group Offices C, D, E, F, G & H are leased to the Remaining Group	160,400

Note:

1. Based on the valuation report prepared by Jones Lang LaSalle Limited, the text of which is set out in Appendix III to this listing document.

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Leased properties

As at the Latest Practicable Date, the Group licensed from the respective owners the following properties:

Location	Usage	Monthly licence fee and other service charges	Term
Car parking space number, V48 on second floor, Shatin Industrial Centre, 5-7 Yuen Shun Circuit, Shatin, Hong Kong	Car parking	HK\$2,800	1 October 2016 to 30 September 2019
Car parking space number, L45 on second floor, Shatin Industrial Centre, 5-7 Yuen Shun Circuit, Shatin, Hong Kong	Car parking	HK\$5,000	1 June 2016 to 28 February 2019

Property with defective title in the PRC

The Group’s fabrication plant in Huizhou, the PRC, is on an industrial complex comprising two adjoining parcels of land located in the Shangxia Development Zone of Huizhou. As at the Latest Practicable Date, the Group held the land use right certificates to occupy the two parcels of land, with site areas of about 11,657 square meters (“**Land Parcel 1**”) and 5,000 square meters (“**Land Parcel 2**”) respectively, and held the property ownership certificates in respect of the buildings erected on Land Parcel 1, which include the fabrication plant, office building, and dormitory.

A single-storey steel frame structure (the “**Structure**”) with a floor area of approximately 2,080 square meters has been erected on Land Parcel 2, at an investment cost of approximately RMB330,000. The structure was completed and came into use in February 2017, primarily as a packaging and storage area for finished products. The Group did not have a valid construction project planning permit for the Structure, and failed to make the relevant filings with the local development and reform department in respect of the Structure. It also did not obtain the consents from the local environment, construction and fire safety departments before commencing the construction of the Structure. Consequently, it did not go through the inspection and acceptance procedures upon completion of the Structure with these departments. The Group did not obtain the ownership certificate for the Structure.

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Reasons for the non-compliance

The Structure is an ancillary structure initially constructed for the purpose of storage of finished products and was intended to shelter the Group’s finished products, and is not crucial to the Group’s operations. As the Structure is a simple steel frame structure, the local management at the relevant time did not realise there was a need to obtain the relevant approvals and consents from the relevant PRC authorities.

Potential liabilities and legal consequences

As advised by the PRC Legal Adviser, the Group may be ordered by the local development and reform, planning and construction, environment and/or fire safety departments to rectify the situation within a designated period, make up for the required formalities, cease the operation or use of the Structure, and/or remove the Structure from the land and restore the land to its original condition, and imposed fines by these departments. The fines are either lump sum amounts or calculated by reference to the investment cost of the Structure as set out in the regulations on project investments, construction works, environment and fire safety respectively.

The PRC Legal Adviser is of the view that the likelihood of the Group’s being imposed the above penalties (including but not limited to the fines) is low, for the following reasons: (i) as confirmed by the Group, the responsible local departments were aware of the construction and use of the Structure but did not impose any penalties, raise any objections or conduct any investigations on it; (ii) the Structure is an ancillary structure used for packaging and storage, and as confirmed by the Group, the Structure can be removed at minimum cost without any material impact on the operation or financial condition of the fabrication plant; (iii) as confirmed by the Group, the design, construction and use of the Structure are in line with the applicable PRC laws and regulations including but not limited to environmental protection and fire safety standards, and there is no risk of pollution or fire hazard; and (iv) the Group has commenced to discuss with relevant local departments to understand their requirements on making up for the required formalities and/or other remedial measures, and undertakes to take corrective measures accordingly.

Remedial actions

As the Structure is only an ancillary structure mainly used for packaging and storage of finished products, it is not crucial to the operations of the Group. The Group will endeavour to make up for the required formalities based on the requirements of the relevant local departments. To the extent the Group is not able to make up the required formalities, or if necessary or requested by the relevant authorities, the Group will dismantle the Structure and build another structure in compliance with the relevant local laws and regulations. The Group will arrange another area to carry out packaging and store its finished products as necessary. The dismantling of the Structure will not affect the operations of the fabrication plant, and losses from operation due to dismantling the Structure and moving the finished goods to another area for storage will be minimal.

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Views of the Directors

Considering that the Structure is only an ancillary structure and can be removed at minimum cost without any material impact on the operation or financial condition of the fabrication plant, and given that the PRC Legal Adviser is of the view that the likelihood of the Group being subject to penalties is low, the Directors are of the view that the Structure is not crucial to the Group’s business operation. In view of the foregoing, the Group has not made any provision for the potential penalties with respect to the Structure.

COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed below and otherwise in this listing document, the Directors confirm that the Group has complied with all applicable laws and regulations in all material respects in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

Historical non-compliances

(1) Health and safety related laws and regulations

During the Track Record Period and up to the Latest Practicable Date, the Group was convicted of the following offence in Hong Kong:

Relevant subsidiary	Particulars of the charge	Date of order	Penalty
Million Hope Industries (HK)	Failure on 22 February 2014, to provide and maintain a system of work for the operation of a crane that was, as far as was reasonably practicable, safe and without risks to health of a person employed by another subcontractor at the construction site contrary to Sections 6A(1), 6A(2)(a), and 6A(3) of the Factories and Industrial Undertakings Ordinance	25 July 2016	HK\$30,000

Reasons for the non-compliance

The Directors noted that at the material time of the incident mentioned above, the crane (which is owned by another subcontractor and not the Group) was not being operated by the Group, but by an employee of another subcontractor at the construction site. The non-compliance incident was due to the mistakes of the relevant employees of the other subcontractors, and not by the Group’s employees.

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Liabilities and legal consequences

The above charge and conviction were made against Million Hope Industries (HK) and not against the Directors or the senior management of the Group, and the penalty was only monetary in nature. A fine of HK\$30,000 was imposed on Million Hope Industries (HK) which was duly paid, and no provision had to be made.

Remedial actions

After the incident, in order to improve safety measures, the Group employed a safety manager to monitor the implementation of safety measures at the Group’s construction sites.

Views of the Directors

After taking into consideration that (i) after the incident, the Group had employed a safety manager to monitor the implementation of safety measures at the Group’s construction sites; (ii) the total amount of fine paid by the Group in relation to the above conviction was only HK\$30,000 and did not result in the revocation, suspension or downgrading of the Group’s qualifications or licences; and (iii) the conviction did not affect the Group’s ability to tender for projects, the Directors were of the view that the conviction did not have a material adverse impact on the Group’s operation and financial position.

(2) Property with defective titles in the PRC

There were title defects in respect of the Structure which the Group had erected on its industrial complex in Huizhou, the PRC. Please refer to the sub-section headed “Property with defective titles in the PRC” in this section for further details.

(3) Social insurance and housing provident fund contributions in the PRC

During the Track Record Period, the Group did not fully comply with the relevant PRC regulations in relation to the payment of contributions to the social insurance plans and housing provident fund for the employees in the PRC.

Reasons for the non-compliance

The Group had been making contributions to social insurance plans and housing provident fund for all of its employees in the PRC based on its understanding of the local practices. However, the Group failed to make adequate social insurance and housing provident fund contributions for its employees because it calculated the amounts of contributions according to certain fixed bases based on its understanding of the local practices rather than the bases required by relevant regulations, i.e. the employees’ actual salaries of the previous year.

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The amount of the shortfall in respect of social insurance plan contributions for the years ended 31 March 2016, 2017 and 2018 were approximately RMB1,834,000, RMB1,813,000 and RMB1,065,000, respectively. The amount of the shortfall in respect of housing provident fund contributions for the years ended 31 March 2016, 2017 and 2018 were approximately RMB329,000, RMB237,000 and RMB281,000, respectively.

Potential liabilities and legal consequences

As advised by the PRC Legal Adviser, the Group may be subject to the following penalties:

- (i) with respect to social insurance contributions – pursuant to the relevant PRC laws and regulations, the social insurance authority may order the Group to pay all outstanding social insurance contributions within a prescribed time limit, and impose a late payment fee at a daily rate of 0.05% on the outstanding amount. The social insurance authority may impose a fine ranging between one to three times of the total outstanding balance in the of failure to pay the outstanding balance within the prescribed time limit;
- (ii) with respect to housing provident fund contributions – pursuant to the relevant laws and regulations, the housing provident fund management centre may order the Group to pay the outstanding balance within a prescribed time limit. Where the payment has not been made after the expiration of the time limit, an application may be made to a people's court in the PRC for compulsory enforcement.

Remedial actions

The Group has obtained a written confirmation dated 3 May 2018 from the Human Resources and Social Security Bureau of Huicheng District, Huizhou (惠州市惠城區人力資源和社會保障局), being the competent authority for administering the social insurance fund related affairs in Huizhou, that from the date of establishment of Million Hope (Huizhou) up to the date of the confirmation letter, Million Hope (Huizhou) had not been subject to any administrative actions or penalties due to non-compliance with the relevant laws and regulations in relation to labour protection (including social insurance). The Group had also obtained a written confirmation dated 11 July 2018 from the Huizhou Housing Provident Fund Administration Centre (惠州市住房公積金管理中心), being the competent authority for administering the housing provident fund related affairs in Huizhou, that during the period from 9 June 2013 (being the date on which the housing provident fund account was set up) up to 30 May 2018, there was no record of non-compliance or penalties imposed on Million Hope (Huizhou). On 20 August 2018, the PRC Legal Adviser and the PRC legal adviser to the Sponsor interviewed the Shuikou Branch of the Tax Bureau of Huicheng District, Huizhou which is the competent authority for collecting social insurance payments. The authority confirmed that (i) it was aware of Million Hope (Huizhou)'s actual situation of historical social insurances payments, including the bases adopted for calculating the payable amounts, (ii) such historical payments were in compliance with the national and local rules and policies,

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(iii) there was no outstanding amount to be paid; and (iv) Million Hope (Huizhou) would not be subject to late payment fee, fine or other penalties.

As at the Latest Practicable Date, no administrative action, fine or penalty has been imposed by the relevant PRC government authorities with respect to such non-compliance, nor has any order been received by the Group to settle the outstanding amount of social insurance and housing provident fund payments, and the Group has not been subject to any labour disputes, arbitration or litigation in this relation.

The Group has started to make full contributions to the social insurance plans and housing provident fund for employees in the PRC since August 2018 and July 2018, respectively.

As advised by the PRC Legal Adviser, based on the facts and authorities’ confirmations as mentioned above, the risk of the Group being penalised due to the above non-compliance is remote.

Views of the Directors

Based on the confirmations received from the relevant PRC authorities, and on the advice of the PRC Legal Adviser, the Directors consider that the historical shortfall in the relevant social insurance and housing provident fund contributions will not have any material adverse impact on the Group’s business or operations.

In view of the foregoing, the Group has not made provisions for the shortfall in the social insurance contribution in the audited financial statements for the years ended 31 March 2016, 2017 and 2018, respectively. As at 31 March 2018, the Group made provisions for the years ended 31 March 2016, 2017 and 2018 in the amounts of approximately RMB329,000, RMB237,000 and RMB281,000, respectively, for the unpaid amount of housing provident fund contribution. The Directors believe that such provisions are sufficient to cover the Group’s liabilities in respect of unpaid housing provident fund contribution.

LITIGATION AND POTENTIAL CLAIMS

During the Track Record Period and up to the Latest Practicable Date, the Group was involved in a number of claims and litigation and pending or threatened claims. The Directors are of the view that the occurrence of personal injuries is not uncommon in the construction industry. Set out below is a summary of the ongoing and potential claims and legal proceedings involving the Group as at the Latest Practicable Date.

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(1) Litigation and claims as at the Latest Practicable Date

Ongoing litigation and claims in Hong Kong as at the Latest Practicable Date

Employee’s compensation/personal injury

No.	Nature of incident/claim	Date/period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/estimated quantum of damages claimed	Status
1.	A claim for personal injuries by the plaintiff in 2016; it was alleged that the plaintiff suffered a fracture to his finger while attempting to hammer into cement at a construction site	15 June 2016	Employee of subcontractor of the Group	Million Hope Industries (HK) as the subcontractor, Main contractor of the project, Other relevant subcontractors	Damages to be assessed by court. Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is found to be liable	The Directors confirm that as at the Latest Practicable Date, the case is being handled by solicitors nominated by the insurance company
2.	A claim for personal injuries by the plaintiff in 2017; it was alleged that the plaintiff injured his lower back while moving glass suction cup at the construction site	16 February 2017	Employee of subcontractor of the Group	Million Hope Industries (HK) as the subcontractor, Main contractor of the project, Other relevant subcontractors	Damages to be assessed by court. Since the claim is covered under insurance policy, the damages shall be paid by the insurance company to the claimant directly if the Group is found to be liable	The Directors confirm that as at the Latest Practicable Date, the case is being handled by solicitors nominated by the insurance company

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

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Other proceedings

Nature of incident/claim	Date/period of incident	Capacity of plaintiff(s)	Name(s) and capacity of defendant(s)	Amount/estimated quantum of damages claimed	Status
Alleged breach of Regulation 38C of the Construction Sites (Safety) Regulations under the Factories and Industrial Undertakings Ordinance	15 November 2017	Labour Department	Million Hope Industries (HK)	N/A	The trial hearing has been set for 13, 14 and 17 December 2018

Million Hope Industries (HK) received a summons dated 14 May 2018 taken out by the Labour Department alleging that on 15 November 2017, Million Hope Industries (HK) failed in its duty, as contractor with direct control over a work site, to provide a suitably-compliant ladder or scaffold in the context of fitting-out work undertaken by the employee of a sub-contractor. The summons taken out by the Labour Department was first heard at the Eastern Magistrates’ Court on 8 June 2018, where Million Hope Industries (HK) pleaded ‘not guilty’. At a pre-trial review held on 14 September 2018, Million Hope Industries (HK) maintained its plea of ‘not guilty’. The trial hearing has been fixed for December 2018 as set out above.

Pursuant to the relevant provisions of the Construction Sites (Safety) Regulations, the maximum penalty for non-compliance of this Regulation is a fine of HK\$200,000, although the Company’s considered assessment is that a finding of breach is more likely to result in a fine in the order of HK\$5,000 to HK\$10,000. No Director or officer of the Group has been charged in relation to this incident, and Million Hope Industries (HK)’s position is to vigorously defend the case.

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

As at the Latest Practicable Date, out of the 15 accidents that happened in Hong Kong during the Track Record Period and up to the Latest Practicable Date, there were: (i) seven accidents in respect of which the injured persons have fully settled the compensation under the Employees’ Compensation Ordinance with the subcontractors or insurance companies; (ii) one accident in respect of which the employees’ compensation claim was discontinued; (iii) two accidents in respect of which summons had been received and legal proceedings for employees’ compensation claims have commenced and were outstanding; and (iv) five accidents in respect of which the injured persons have not yet filed any employees’ compensation claims or commenced legal proceedings against the Group or the injured persons are still receiving periodical payments.

Regarding the abovementioned accidents in respect of which the injured persons have not yet filed any claims or commenced legal proceedings against the Group, as at the Latest Practicable Date, the limitation period of the respective potential employees’ compensation claim and respective potential personal injury claim had not expired. As such, as at the Latest Practicable Date, the Group had a total of five potential employees’ compensation claims and 15 potential personal injury claims.

Since no civil action has commenced, the claims, when filed, will be handled by solicitors appointed by the insurers, the Group is not in a position to assess the likely quantum of such potential claims.

As at the Latest Practicable Date, notices of the accidents had been given to the insurers. It is expected that the injured persons would be fully covered by the mandatory insurance held either by the Group or the relevant main contractor.

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

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INTERNAL CONTROL AND RISK MANAGEMENT

In preparation for the Listing, the Group has appointed an independent internal control adviser to perform a detailed assessment of the Group’s internal control system including the areas of financial, operation, compliance and risk management with an aim to, amongst other matters, improve the Group’s internal control system including its risk management and corporate governance. The internal control adviser had provided recommendations in relation to strengthening the Group’s internal controls, and the Group has taken measures to implement the relevant internal control measures.

The internal control adviser has performed a follow-up review by focusing on the remedial actions undertaken by the management of the Group on the control deficiencies identified in the first round review. Based on the result of the follow-up review, the Directors confirmed that the Group has adopted all of the major internal measures and policies suggested by the internal control adviser and are satisfied that the Group’s internal controls are adequate and effective for the Group’s operations.

The Group has established a set of internal control and risk management policies and procedures to identify, assess and control the risks arising from the Group’s business operations, including but not limited to policies in relation to tender preparation, financial reporting and disclosure controls, project management, cash and treasury management, human resource and payroll management, information security management, disaster recovery and business continuity plans. The Board is responsible for overseeing overall risk management. The Group will also have in place an audit committee, which consists of all the independent non-executive Directors, to oversee the implementation of the internal control procedures of the Group. Please refer to the section headed “Directors and senior management – Independent non-executive Directors” in this listing document for further information on the independent non-executive Directors.