
BUSINESS

OVERVIEW

We provide ELV solutions primarily on central control monitoring systems to our customers in Hong Kong. Central control monitoring systems refer to all of the wide variety of systems relating to management of a single block of building, residential development, commercial and industrial buildings, sewage treatment facilities, hospitals or other government facilities. The key central control monitoring systems we install and maintain include security systems, car park systems, clubhouse management systems, etc. As the central control monitoring systems cover a wide variety of ELV solutions, our top 10 installation projects during each of the two years ended 31 August 2015 and 2016 primarily involved central control monitoring systems. Please refer to the paragraph headed “Business – Projects – Our top 10 installation projects by revenue” below in this section for further details. In addition, we also provide ELV solutions on telecommunications and broadcasting services systems such as CABD System and SMATV System and our top 10 installation projects during each of the two years ended 31 August 2015 and 2016 also included upgrading of digital terrestrial television for our customer.

We have obtained qualifications and licences from various authorities. We have obtained licences from Office of the Communications Authority (previously known as Office of the Telecommunications Authority), Security Bureau – Security and Guarding Services Industry Authority and Buildings Department to conduct various types of works. We are on the approved contractors or suppliers lists of Drainage Services Department Sewage Treatment Division, Electrical and Mechanical Services Department, Leisure and Cultural Services Department, Government Logistics Department and Development Bureau as a contractor or supplier for various works or products.

During the Track Record Period, our clientele comprises customers from both the private and public sectors. Our customers in the private sector are mainly property developers and property management companies in Hong Kong. Our customers in the public sector are mainly Government departments such as Drainage Services Department, Leisure and Cultural Services Department, Electrical and Mechanical Services Department, etc.

COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths of our Company have contributed to our success to date:

Established ELV solutions provider holding various qualifications and licences

We have been providing ELV solutions in Hong Kong since 2003. During the Track Record Period, we have undertaken 4,752 installation projects and 1,035 maintenance projects for various Government entities as well as customers engaged in property development and property security businesses. Our Company has accumulated vast experience through the projects undertaken over the years.

BUSINESS

We have obtained qualifications and licences from various authorities. We have obtained licences from Office of the Communications Authority (previously known as Office of the Telecommunications Authority), Security Bureau – Security and Guarding Services Industry Authority and Buildings Department to conduct various types of works. We are on the approved contractors or suppliers lists of Drainage Services Department Sewage Treatment Division, Electrical and Mechanical Services Department, Leisure and Cultural Services Department, Government Logistics Department and Development Bureau as a contractor or supplier for various works or products. We are one of the Octopus authorised contractors for club house company, Octopus authorised car park contractors companies and Octopus authorised contractors for access control system company. Our Directors believe that our ability to provide comprehensive service to our customers give us the competitive edge. Please refer to the paragraph headed “Business – Key qualifications and licences” in this prospectus for further details.

In view of our proven track record, our Directors consider that we are an established ELV solutions provider in Hong Kong.

Established customer base

Our Directors believe that we have established a solid customer base in both private and public sectors over our 13 years of operations. Our customers in the private sector are mainly property developers and property management companies in Hong Kong whereas our customers in the public sector are mainly Government departments such as Drainage Services Department, Leisure and Cultural Services Department, Electrical and Mechanical Services Department, etc.

As at the Latest Practicable Date, our business relationships with the five largest customers ranged from approximately 1 year to 8 years. For the two years ended 31 August 2016, we served approximately 130 customers each year, with revenue generated from our largest customer accounted for approximately 20.3% and 31.3% respectively, of our total revenue.

Our Directors believe that we can leverage on our relationship with these customers to increase our chance to receive invitations to tender from them for their future projects.

Experience in a substantial number of sites in Hong Kong

Our Directors believe that if we receive invitation to tender for a project that we worked on the site in the past, we have a competitive advantage over competitors who did not work on the site before since we are more familiar with the site. This can be demonstrated by our success rates to renew expired maintenance projects for each of the two years ended 31 August 2016 which reached approximately 70.1% and 77.8% respectively. We had 701 and 811 maintenance projects and 1,937 and 2,829 installation projects with revenue contribution for each of the two years ended 31 August 2016 respectively and shared about 14.5% of the industry revenue in 2015 according to the F&S Report.

BUSINESS

Stable and experienced management team

Our experienced and dedicated management team develops overall strategies for our Company. Our management team is led by Dr. Ng, our chief executive officer, Executive Director and chairman of our Board, who has over 15 years of experience in the industry. Mr. Law and Mr. Ling, our Executive Director and project manager respectively, also have more than 31 years and 13 years of experience in the industry, respectively. In addition, we have 25 staff in our installation teams and 98 staff in our maintenance teams as at the Latest Practicable Date. We believe that our experienced management team possesses the core skills and experience to formulate detailed and well-planned work processes and provide quality services to our customers. For the experience and qualifications of our Directors and senior management, please refer to the section headed “Directors and senior management” in this prospectus.

Established relationship with suppliers and subcontractors

As at the Latest Practicable Date, we have maintained stable and established business relationship with our top five suppliers for a period ranging from around 1 to 11 years and with our top five subcontractors for a period ranging from around 1 to 5 years. For details of our top five suppliers and subcontractors, please refer to the paragraphs headed “Business – Suppliers” and “Business – Outsourcing” in this prospectus. Our Directors believe that our relationship with suppliers and subcontractors enables us to secure stable source of product supply and services and also to have their continuous support in our business solutions.

BUSINESS STRATEGIES

Our goal is to continue to be one of the leading ELV solutions providers in Hong Kong. By adopting the business strategies set out below, we plan to continue to expand our business and strengthen our market position in Hong Kong.

Expanding our existing ELV solutions business by offering instalment payment option to our customers

We had offered and secured several projects with the instalment payment option before the Track Record Period. Installment payment option requires us to pay the cost of the solutions provided to the customer and allows the customer to repay us monthly over a period of time. In general, the repayment period ranged from 18 to 48 months.

BUSINESS

Based on our available internal record which we kept for the last 10 years, the most recent projects in which we offered instalment payment option to customers were three installation projects we undertook in 2012 and 2013. Details of the three projects we offered with instalment payment option before the Track Record Period are as follows:

Time of contract	Type of solutions provided	Contract sum	Annual premium charged against one-off payment option (Note)
1. August 2012	Installation of car park system	HK\$163,200 (for 48 month instalment)	10%
2. May 2013	Installation of car park system	HK\$263,400 (for 18 month instalment)	10%
3. November 2013	Installation of car park system	HK\$583,000 (for 48 month instalment)	10%

Note:

The annual premium is calculated by dividing the additional contract sum we charged per year for the project with instalment payment option by the contract sum we proposed to the customer for the same project with one-off payment option.

The customers of the above projects with instalment payment option were in the private sector and did not have any default in making the instalment payments. Accordingly, we did not encounter material adverse impact on our liquidity or financial position when we launched the payment instalment option for the above installation projects before the Track Record Period.

We ceased to offer such option during Track Record Period as we need to bear the cost of our solutions provided to customers at the beginning and be paid over a longer period of time, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditure and other general corporate purpose. We will have sufficient capital for the projects with instalment payment arrangement on top of the general working capital for our operation after Listing, so we started offering instalment payment option again in September 2016. We have given out offers of instalment payment option to 11 potential customers in recent months since September 2016, and have not entered into any project with this payment arrangement as at the Latest Practicable Date.

This option is (i) beneficial to the customers as it allows the customers to spread out their capital outlay over a period of time rather than paying a lump sum and (ii) enables them to better plan their future cashflow ahead as they know exactly when and how much they have to pay. In addition, it is beneficial to our Group in the following ways:

- i. As mentioned in the F&S report, it is an industry norm that ELV integrated service providers offering instalment options to their customers in the ELV integrated service market. Our Directors believe that the offering of this payment option enables us to maintain our competitiveness.

BUSINESS

- ii. In general, we provide maintenance services during the instalment payment period. Therefore, by offering this instalment payment option, our Group has a continuous business relationship with the customers during a period of 18 to 48 months and our Directors believe such continuous business relationship can facilitate our Group to explore potential business opportunities and market our services from time to time.
- iii. The price of our solutions provided under this payment option is higher and if the customers prefer such payment option, we can enhance our profitability accordingly. During the Track Record Period, the gross profit margin of our installation service segment was approximately 40.1% and 49.0% for the financial years ended 31 August 2015 and 2016 respectively. Our Directors, after taking into account the premium we charged for projects with instalment payment option before the Track Record Period, expect that we can charge an annual premium of approximately 9.0% for the instalment payment option. Therefore, as an example, for an installation project of a contract sum of HK\$1.0 million, we can increase the contract sum to approximately HK\$1.4 million with an instalment payment option for four years. Given the cost of the project will remain the same, our expected gross profit margin will increase from approximately 40% to approximately 56% with the instalment payment option.

We must have sufficient capital for the projects with instalment payment arrangement on top of the general working capital for our operation. We target to provide the instalment payment option for installation works such as car park systems and access control systems with standard contract period of 48 months. We consider that as our liquidity and financial position will be enhanced by the net proceeds to be received by us from the Share Offer, and our customers had engaged us to install car park systems and access control systems with contract value of more than HK\$2 million during the Track Record Period, we will also be able to provide the instalment payment option for those installation works with contract value which may be higher than those of the contracts offered by us before the Track Record Period. Our Directors decide that the provision of instalment payment option is targeted exclusively to our installation works of car park systems and access control systems as a starting point as they are the areas in which we have experience in providing instalment payment option before the Track Record Period. Moreover, our Directors decide that the instalment payment option is provided with a contract period of 48 months because such contract period is set in line with the industry norm of 48 months as mentioned in the F&S Report, and is not longer than the maintenance cycle of car park systems and security systems, which is estimated to be 5.6 and 6 years based on our Group's experience.

BUSINESS

The following table set forth the key terms regarding the instalment payment option we target to provide to our customers:

Key terms	Description
Term and Rentals	<p>The customer hires the ELV solutions for a specific period at an agreed amount of monthly rental. So long as the customer is neither in default in the payment of any sum of money payable, nor is in breach of any of the covenants on its part to perform in the instalment payment agreement, it may peaceably hold and enjoy quiet possession of the solutions for the term of the hiring.</p>
Ownership of Solutions	<p>Our Group shall at all times during the term of the hiring retain the ownership of the solutions.</p> <p>Our Group agrees that if the customer shall pay punctually the rentals or other sums due from the customer under the agreement and shall strictly observe and perform all the terms, conditions and obligations on the customer's own part contained in the agreement, the customer shall have:</p> <ul style="list-style-type: none">(i) the option to purchase the solutions at a nominal amount; and(ii) upon such purchase title to the solutions shall pass to the customer or that the ownership of the solutions shall automatically pass to customer upon the expiration of the term of the hiring.
Return of the Solutions	<p>Unless the ownership of the solutions is passed to the customer as mentioned above, the customer:</p> <ul style="list-style-type: none">(i) shall deliver up the solutions serviced and maintained and in good repair and working order at the expiration of the term of the hiring or upon earlier termination of the agreement at such address in Hong Kong as our Group shall notify the customer; and

BUSINESS

Key terms	Description
	<p>(ii) if necessary shall allow our Group, its agents or representatives access to any premises where the solutions may be for the purpose of removing them and at our Group's request and as its agent to sell the solutions at the best price reasonably available and on such terms as our Group may require.</p>
Default or Breach	<p>(i) Upon the occurrence of a total loss or constructive loss of the solutions, the hiring of the solutions shall terminate.</p> <p>(ii) Without prejudice to our Group's right to arrears of rentals or other sums due or for damages for breach of the agreement, our Group may terminate the hiring under the agreement on the occurrence of any of the following events:</p> <ul style="list-style-type: none">a. if the customer shall not pay any of the rentals or any sums agreed to be paid by the customer to our Group under the agreement punctually on the date when due; orb. if the customer shall be in breach of any term of the agreement; orc. if the customer shall do or allow to be done any act or thing that may prejudice or endanger our Group's property or rights in the solutions; ord. if the customer shall be liquidated or wound up or have a petition for winding up presented against it or pass a resolution for voluntary winding up (otherwise than for a bona fide reconstruction); or

BUSINESS

Key terms	Description
	<p>e. if a petition for the appointment of an administrator is presented against the customer or if the customer has a receiver or administrative receiver appointed; or</p> <p>f. if the customer shall convene any meeting of its creditors or make a deed of assignment or arrangement or otherwise compound with its creditors;</p> <p>whereupon our Group's consent to the customer's possession of the solutions shall terminate immediately and our Group may take possession of the solutions wherever they may be.</p>
Consequences of the Termination	<p>Forthwith upon the hiring of the solutions being terminated, the customer shall pay to our Group the aggregate of the following sums less the net proceeds from the sales of the solutions:</p> <p>(i) all arrears of rent including apportioned rent for any broken period; and</p> <p>(ii) damages for any breach of the agreement and all expenses and costs incurred by our Group in retaking possession of and selling or attempting to sell the solutions and/or enforcing its rights under the agreement.</p>

In connection with this, we intend to allocate approximately HK\$12.0 million of the proceeds from the Share Offer for these projects.

BUSINESS

If we continue to offer instalment payment option to customers with the use of capital resources in addition to the net proceeds from the Share Offer, we will be required to pay the costs of our solutions provided to customers at the beginning and be paid over a longer period of time, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditure and other general corporate purposes. Moreover, if any of our customers choosing the instalment payment option is in material default of the payment obligation under the contract with us, we may not be able to effect re-possession or re-sale of the solutions provided in a timely manner or at all and we may incur costs to effect such re-possession or re-sale.

To reduce our exposure to the above liquidity risk and credit risk, we implement the following risk control policies:

- (i) Approval: For contract sum below HK\$50,000.00, approval of either an Executive Director or head of our sales team is required. For contract sum between HK\$50,000.00 and HK\$500,000.00, approval from both of an Executive Director and head of our sales team is required. For contract sum over HK\$500,000.00, apart from approval from both of an Executive Director and head of our sales team, additional credit check and approval is required by our head of accounting department;
- (ii) Credit Check: For approval of contracts of instalment payment option, the following criteria are considered:
 - a. For existing customers, we check with the accounting department to see if there has been any record of default payment of the customer for the past two years. No approval is allowed if there has been any record of default payment.
 - b. For new customers with the particular contract sum exceeding HK\$0.5 million, except for customers which are government departments, companies listed on the Stock Exchange or incorporated owners in Hong Kong, approval is only granted if no negative aspect is found from all of the following background searches:
 - i. company searches of the customer for the past two years;
 - ii. media searches on the customer for the past two years;
 - iii. litigation searches on the customer for the past two years; and
 - iv. litigation searches on the customer's individual directors for the past two years.
- (iii) Retention of Title: Our Group retains the legal title of the equipment under such instalment payment option arrangement until the payment is fully settled; and

BUSINESS

- (iv) Mitigation of liquidity risk: Liquidity risk refers to the risk that we are unable to obtain sufficient funds in a timely manner and at a reasonable cost to cope with asset growth or settle due debts although we are solvent. Our Group will mitigate the said liquidity risk by adopting the following measures:
- a. In the light of the demand for fund as a result of the offer of the instalment option, we mitigate the liquidity risk by only applying approximately HK\$12 million (or 38.1% of the net proceeds from the Share Offer) for offering the instalment payment option to our customers. Accordingly, no contract for installation work with instalment payment option is allowed to have contract sum exceeding HK\$1.6 million, and the aggregated contract sum of all contracts for installation work with instalment payment option is not allowed to exceed HK\$27 million, which amount is arrived at by assuming that HK\$12 million from the net proceeds of the Share Offer is used as the costs of sales for projects with instalment payment option, and such projects are expected to have an expected gross profit margin of approximately 56% as mentioned above. Our head of accounting department will review monthly the adherence to the said contract limit of HK\$1.6 million and the said aggregated contract limit of HK\$27 million.
 - b. As a risk mitigation measures against the liquidity risk arising from the collection of any receivables from the customers paying by installment, our head of accounting department will be responsible for monitoring the accounts receivable aging report of our Group on a monthly basis to ensure that our customers are paying their monthly instalment payments on time. Our Group will issue written reminder to the relevant customer for any monthly instalment payment that is due over 60 days. For monthly instalment payment that is due over 90 days, our Group will commence appropriate legal actions against the relevant customer to gain the possession of equipment as well as claim for any damages.

Obtaining additional licences and qualifications

The Directors believe that our various licences and qualifications give us a competitive advantage over competitors as these licences and qualifications enable us to provide a comprehensive solution to our customers. As such, we will continue to obtain additional licences and qualifications in order to provide more services to our customers.

BUSINESS

As at the Latest Practicable Date, there are currently approximately 70 sewage plants in Hong Kong. As such, in the next two years, we target to be selected under the category “Electrical and Mechanical Installation for Sewage Treatment and Screening Plant” on the list of approved suppliers of materials and specialist contractors for public work for the Development Bureau. This will enable us to become a main contractor to projects in relation to sewage treatment and screening plant, and the Directors believe that being qualified as a main contractor in such projects will provide more certainty in securing our role in the project than only acting as a subcontractor. Once we secure the project, we can achieve higher profit margin than acting as a subcontractor.

In order to achieve this, among others, we have to complete two relevant job references. We expect to obtain the first reference after we complete our current maintenance project (with project code P21) for Customer A, in which we act as a subcontractor to provide maintenance, modification and installation works of electronic and E&M control systems at various sewage treatment works and their outstations (including Sewage Treatment Works and outstations in Shek Wu Hui, Yuen Long, Sham Tseng, Shatin, Sai Kung, Tai Po, Siu Ho Wan, Stonecutters Island). We will continue our relationship with Customer A, which we have business relationship for 6 years, to cooperate to bid for projects similar to one of our current maintenance project (with project code P21). Please refer to the paragraph headed “Business – Projects – Our top 10 maintenance projects by project” for further details. The Directors expect to complete the second relevant job reference by mid of 2018.

Apart from the two relevant job references, other conditions to obtain this qualification include but not limited to:

- demonstrate that we have the qualified staff including at least a registered professional engineer. In this regard, we plan to hire a registered professional engineer by the end of 2018;
- demonstrate that we have the sufficient relevant equipment for this kind of project. In this regard, we have earmarked HK\$1.0 million of the proceeds to purchase these equipment; and
- maintain a minimum of HK\$3.4 million or a minimum of 15% of project contract sum as working capital and employed capital, whichever is higher.

BUSINESS

Reducing our gearing ratio by repaying certain bank borrowings in an one-off manner

Some of our customers may require our financial information to be submitted along with our tender submission for financial assessment. The requested documents may include our financial statements as well as our bank letters or agreements on existing bank facilities such as term loans and overdraft. In this regard, our Directors consider that it is beneficial to reduce our Group's gearing ratio so as to improve our Group's financial position and increase our tender success rate. In connection with this, we intend to allocate HK\$8.0 million of the proceeds from the Share Offer to repay a revolving term loan of approximately HK\$8.0 million with interest charged at 2.0% per annum below prime rate.

Strengthening our maintenance teams by purchasing equipment and developing new software

Our Directors believe that one of the key strengths for our maintenance service is our formation of six maintenance teams which are designated for different types of maintenance works and for provision of our maintenance services in different districts in Hong Kong. Please refer to the paragraph headed "Business – Our Operations and Services – Operation workflow for maintenance service – Maintenance team receives orders from customer service team" for further details. However, as at the Latest Practicable Date, we have only five commercial vehicles for our maintenance teams to provide maintenance services for our customers located in various and all districts in Hong Kong. We plan to enhance the efficiency of our maintenance teams by:

- (i) purchasing five more commercial vehicles for the teams so they can reach to our customers faster;
- (ii) purchasing two street lamp cars to strengthen our team's capability;
- (iii) engaging external professionals to develop a new mobile app for our customers to place their orders for maintenance service.

In connection with this, we intend to allocate approximately HK\$4.5 million of the proceeds from the Share Offer to purchase equipment and develop software.

BUSINESS

Our Directors are of the view that there is a practical need to improve the Group's project capability and efficiency by acquiring additional commercial vehicles and street lamp cars because of its benefits of enhancing the Group's capability on securing the successful bidding of governmental projects of large scale. Additional commercial vehicles and street lamp cars will provide the Group with more capacity to fulfill several common contractual requirements of the governmental maintenance projects:

- (a) **Response Time Requirement:** where the scope of governmental maintenance projects covers emergency maintenance services, the service requirements of which usually require the maintenance team of our Group to arrive at the site of incident to carry out immediate emergency services within the time limit stipulated in the contract. As the time limit of arrival for urgent emergency services usually ranges from 1 hour to 1.5 hour from the time the fault call is received, our Directors are of the view that additional vehicles are needed to fulfil such requirement of governmental maintenance contracts of large scale and to ensure operational efficiency particularly in case of urgent maintenance;
- (b) **Access Permit:** our Group is usually required under government's contract to obtain at our own cost the access permit to the maintenance sites. As the access permits to many of the governmental areas are usually granted to both drivers and vehicles, our Group cannot rely on vehicles rented by third parties for the provision of services. Thus, our Directors are of the view that additional vehicles are needed for the fulfilment of this requirement in governmental maintenance contracts;
- (c) **Street Lamp Cars:** as some of the governmental maintenance projects include services where street lamp cars are necessary for its performance, our Directors are of the view that additional street lamps cars are needed for the successful bidding of such contracts.

If we resort to the rental of the said five commercial vehicles and two street lamp cars, the total rental costs of the said five commercial vehicles and two street lamp cars, based on the prevailing market rate and the assumption of their useful life of four years, are estimated to be approximately HK\$2.0 million and HK\$8.2 million, respectively. Therefore, our Group plans to invest approximately HK\$1.0 million for acquiring five new commercial vehicles and approximately HK\$2.0 million for acquiring two new street lamp cars for supporting its services. Assuming the useful life of the commercial vehicles and street lamp cars is four years, the annual depreciation for five commercial vehicles and two street lamp cars amounts to HK\$750,000, and the annual running costs comprising insurance, licence fees and repair and maintenance are estimated to be HK\$252,000 per year. Thus the total depreciation and running costs for five commercial vehicles and two street lamp cars for four years are estimated to be approximately HK\$4.0 million, which will be cheaper than the rental of such vehicles. For further details of the implementation plan, please refer to the paragraph headed "Future plans and use of proceeds – Implementation plan" in this prospectus.

BUSINESS

BUSINESS AND REVENUE MODEL

Our Group's revenue is derived from the installation of various systems and provision of maintenance service during the Track Record Period. We recognise our revenue by reference to the stage of completion of the contract at the end of the financial reporting period. Our customers come from both private and public sectors. We source hardware as well as systems from our suppliers and outsource to our subcontractors certain installation works.

The following table sets forth a breakdown of our revenue by our two service types during the Track Record Period:

Service type	Year ended 31 August			
	2015		2016	
	HK\$'000	%	HK\$'000	%
Installation	30,262	54.0	49,146	61.2
Maintenance	<u>25,804</u>	<u>46.0</u>	<u>31,192</u>	<u>38.8</u>
Total	<u><u>56,066</u></u>	<u><u>100.0</u></u>	<u><u>80,338</u></u>	<u><u>100.0</u></u>

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

Customer type	Year ended 31 August			
	2015		2016	
	HK\$'000	%	HK\$'000	%
Public sector	14,512	25.9	32,264	40.2
Private sector	<u>41,554</u>	<u>74.1</u>	<u>48,074</u>	<u>59.8</u>
Total	<u><u>56,066</u></u>	<u><u>100.0</u></u>	<u><u>80,338</u></u>	<u><u>100.0</u></u>

BUSINESS

The following table sets forth a breakdown of our number of project by customer types during the Track Record Period:

Customer type	Year ended 31 August	
	2015	2016
Public sector	509	1,308
Private sector	<u>2,129</u>	<u>2,332</u>
Total	<u>2,638</u>	<u>3,640</u>

Our ELV solutions are primarily on central control monitoring systems. We also provide ELV solutions on telecommunications and broadcasting services.

(i) Central control monitoring systems

Central control monitoring systems refer to all of the wide variety of systems relating to management of a single block of building, residential development, commercial and industrial buildings, sewage treatment facilities, hospitals or other government facilities. As at the Latest Practicable Date, we are one of the Octopus authorised contractors for club house company, Octopus authorised car park contractors companies and Octopus authorised contractors for access control system company. As the central control monitoring systems cover a wide variety of ELV systems, our top 10 installation projects during each of the two years ended 31 August 2015 and 2016 primarily involved central control monitoring systems. Please refer to the paragraph headed “Projects – Our top 10 installation projects by revenue” below in this section for further details.

The key central control monitoring systems we install and maintain include:

Security system

We provide total security solutions including but not limited to access control, CCTV, burglar alarm, time attendance, elevator control and door phone entry system. For example, during the Track Record Period, we installed a smartcard access control system for a residential development in Mei Foo and a residential development in Kowloon Tong.

BUSINESS

Car park system

The car park access system includes but not limited to the barrier gates, car park entrance station, car park exit station, electronic payment clearing unit, signage, CCTV, height detector and the controlling system. For example, during the Track Record Period, we supplied and installed car park access control system for a residential development in Tseung Kwan O and Haven of Hope Hospital.

Clubhouse management system

Our clubhouse management system provides a graphical interface for facility booking and time enquiry.

Other systems

Apart from the above, we also provide installation and/or maintenance on other systems that are specific for particular facilities. For example, during the Track Record Period, we were engaged to provide maintenance services of electronic works for the Government's sports grounds and sewage treatment facilities. We were also engaged in the installation of PA system for Fire Services Training School in Tseung Kwan O.

(ii) Telecommunications and broadcasting services

We have the relevant qualifications and licences to provide installation and maintenance services for telecommunications and broadcasting services. Currently, the most common systems are CABD System and SMATV System.

CABD System is usually installed inside a building to receive free-to-air TV/FM signals transmitted via radio frequencies and distribute them to the audience. SMATV System is usually installed at the rooftop of a building for satellite television programmes.

BUSINESS

Maintenance Cycle

The following table sets out the estimated maintenance cycle of the major ELV solutions that our Group provides in its installation and maintenance services:

	Maintenance Cycle⁽⁴⁾ (approximate number of years)
Security Systems ^{(1) and (2)}	6.0
Car Park Systems ^{(1) and (2)}	5.6
Clubhouse Management Systems ^{(1) and (2)}	6.7
CABD Systems ⁽³⁾	7.0
SMATV Systems ⁽³⁾	7.0

Notes:

- (1) The estimated maintenance cycle is calculated based on the difference in years between the completion date of the installation contract of an ELV solution provided by the Group to its user and the completion date of the replacement or upgrade contract of the said solution. The figures are calculated by taking the average of the maintenance cycles of the relevant ELV solutions the Group provided to its customers. For this purpose, only the projects where the customers returned to the Group for replacement or upgrade of solutions were included for calculation.
- (2) The calculations of estimated maintenance cycle were made with a number of assumptions, which include that (i) the ELV solutions started to operate on the completion date pursuant to their installation contracts; (ii) the ELV solutions were replaced or upgraded due to the obsolescence, malfunction or collapse of the solutions; (iii) the ELV solutions were not replaced or upgraded during the period on which the calculation of maintenance cycles of such solutions were based (“**Maintenance Cycle Period**”); (iv) the difference in days between the obsolescence, collapse, malfunction of the solutions and the later date of tender pursuant to which the user required a replacement or upgrade of such solution is insignificant; (v) the ELV solutions were in good condition on the date of completion of their installation contracts; and (vi) the ELV solutions were not deliberately damaged, destroyed or destructed during the Maintenance Cycle Period.
- (3) The estimated maintenance cycle for CABD Systems and SMATV Systems is primarily arrived at based on the technology adoption lifecycle of the broadcast technology and with a number of assumptions, which include that (i) the CABD Systems and SMATV Systems are required to be replaced when there is a change of the broadcast technology; and (ii) the CABD Systems and SMATV Systems are in good condition and are not deliberately damaged, destroyed or destructed before they are replaced for there is a change of broadcast technology.

BUSINESS

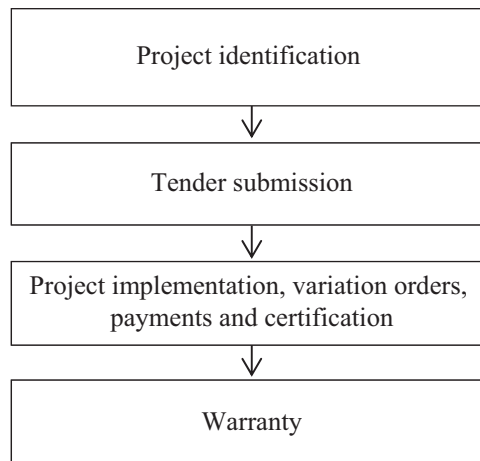
- (4) Please note that the figures disclosed in relation to the estimated maintenance cycle of our major products of ELV solutions that our Group provides in its installation and maintenance services have been prepared based on limited number of sample solutions, respective specifications of the sample solutions and various assumptions, and investor should beware when and if relying on such information. Further, the manner, way, degree, level, extent, duration and frequency of which the ELV solutions are used by their users may vary significantly, which may affect the maintenance cycle of our products. Such figures have been included in this prospectus for reference only and may not be applicable in all cases.

OUR OPERATIONS AND SERVICES

The operations of our Group follow two workflows differentiated by our provision of installation service and maintenance service respectively.

Operation workflow for installation service

The general operation for our installation service is illustrated by the following chart:



Project identification

Our customer service team is responsible to answer calls to our hotline. As at the Latest Practicable Date, the team comprises 5 staff. In general, the calls may be general enquiries, complaints, maintenance request, invitation to tender. The customer service team is required to document all calls and handle them accordingly. If the call is an invitation to tender for installation, our sales team will handle the invitation.

Apart from calls, invitations to tender may also come by post or fax. For some cases, installation may be required during performing maintenance work by us. For example, during a routine check, we may need to replace a broken car park access system.

BUSINESS

Contracts in the public sector in Hong Kong are normally awarded through tendering procedures. Tender invitations may be published in the Government Gazette, on the internet, and all relevant qualified contractors/suppliers are free to submit tenders. In some projects, tenders are by invitations, which are sent out by letter to the qualified contractors/suppliers on the relevant approved contractors or suppliers list as maintained by the relevant Government departments for the purpose of selective tendering.

Tender submission

Once the sales team receives invitation for installation, they will perform an analysis on the potential customer's requirements and may conduct site visits in order to come up with a cost estimation.

After completing the analysis, the sales team will review and evaluate these invitations with our Executive Directors and our Executive Directors will decide whether to bid for the project. Please also refer to the paragraph headed "Sales and marketing – Project selection" in this section for further details.

Once the Executive Directors and the sales team decide to proceed to bid for the project, our customer service team will follow up with the customers.

Project implementation

- If we are awarded the project, our installation team will conduct a preparation meeting to discuss about the overall project plan, material acquisition, contingency, etc.
- As at the Latest Practicable Date, our Group has two regular installation teams comprising 13 and 12 staff.
- Our installation teams are responsible for the implementation of projects, including planning on the allocation of human resources, procurement of requisite raw materials and equipment, and supervision of the performance of works by our subcontractors. A project or contract manager is responsible for the general and routine supervision of the implementation progress of the project, and discuss with and reports to the other parties to the projects, such as the main contractor, architect, consultant, other subcontractors, our subcontractors, and client representative from time to time on the progress of the project, any actual or potential problems encountered, and the client's comments on our quality of services.

BUSINESS

- We may subcontract the labour works for installation works to one or more selected subcontractors based on availability of resources, labour-intensiveness of the work involved and cost effectiveness. We believe that the use of subcontractors is common industry practice and can enhance our flexibility and efficiency. Please see the paragraph headed “Business – Outsourcing” below for further details.
- Upon completion, the sales team and installation teams will conduct site inspection to ensure that work quality is able to meet the standards before delivering the work to the customers. Our customers will examine and sign off the completion of work certification.

Variation orders

Pursuant to a typical contract, we may be given variation orders where our customers amend the specifications and scope of works from that originally contracted. A variation order is generally treated as a new project installation and is therefore made by way of separate purchase order. A variation order may increase, omit or vary the original scope of work and alter the original contract sum. The value for the variation order is agreed between our customer and us. Our Directors confirm that all revenue recorded by the Group during Track Record Period attributable to variation order undertaken by the Group were not under any disputes with the relevant customers.

Payments and certification

We enter into contracts with our customers for our installation service pursuant to which we issue our billings based on project milestones or the actual progress of our work performed. We recognise our revenue by reference to the stage of completion of the contract at the end of the financial reporting period.

We make claims to our customers in respect of the value of the works we have performed and materials delivered to project site, and issue invoices or submit payment applications for the customer’s assessment. Upon submission of a payment application by us, the customer inspects and certifies the amount of work done and the value of materials provided on site. The customer then makes payment with reference to such certificates in accordance with the terms of the contract.

Warranty

Our project contracts usually include a 12-month warranty period. During the warranty period, we generally carry out routine checks and fault checks without any additional costs.

BUSINESS

Operation workflow for maintenance service

Our provision of maintenance services originated from the maintenance contracts generally consist of two service types, namely routine checks and corrective maintenance. Routine checks are performed as preventive maintenance on a regular basis which, depending on the relevant contract, may be weekly, monthly or quarterly, whereas corrective maintenance services are provided in response to maintenance requests received from customers on an ad hoc basis.

Our scope of maintenance services includes system repairing work as well as replacement of parts. If our customer requires the replacement of parts that fall outside the scope of services as specified in the relevant maintenance contract, we treat this as a new installation project which requires a separate tender acceptance.

Maintenance team receives orders from customer service team

Once maintenance team leader receives confirmed orders from customer service team, they will assess the order and then assign the order to the appropriate team members based on their availability and location. As at the Latest Practicable Date, we have six maintenance teams. Four maintenance teams provide general maintenance services for Hong Kong zone, Kowloon zone, New Territories (South) zone, and New Territories (North) zone respectively. The fifth maintenance team is specifically responsible for all car park and smart card related maintenance services and the sixth maintenance team is responsible for the sewage treatment maintenance project.

Once the maintenance service is properly assigned, customer service team will confirm the service schedule with the customers and record on the maintenance timetable.

Technicians are dispatched for maintenance orders

Our technicians are dispatched to customers' premises for maintenance services. An acknowledgement for completion of work will be signed off by both the customer and the technician when the maintenance service is performed. The technician will then submit the acknowledgement for completion of work to the accounting team, who will issue invoice to customer on a regular basis. In the case where installation is required, the request for installation will be passed to the sales team through the customer service team. When our technician, after checking, finds that the maintenance service request is outside our scope of service, he will file a service report to customer service team for follow-up communications with the customer.

BUSINESS

PROJECTS

Number of projects

The following table sets out the breakdown of installation projects in terms of revenue recognised during the Track Record Period by range of revenue:

No. of installation projects	Year ended 31 August	
	2015	2016
HK\$500,000 or above	10	12
HK\$100,000 to below HK\$500,000	33	46
Below HK\$100,000	<u>1,894</u>	<u>2,771</u>
Total	<u>1,937</u>	<u>2,829</u>

The following table sets out the breakdown of maintenance projects in terms of revenue recognised during the Track Record Period by range of revenue:

No. of maintenance projects	Year ended 31 August	
	2015	2016
HK\$100,000 or above	16	22
HK\$50,000 to below HK\$100,000	17	22
Below HK\$50,000	<u>668</u>	<u>767</u>
Total	<u>701</u>	<u>811</u>

BUSINESS

The following table sets out the number of projects in terms of (i) type of contracts entered into and (ii) revenue recognised during Track Record Period:

No. of projects	Year ended 31 August	
	2015	2016
1) Type of contracts entered into the period		
Installation	1,914	2,815
Maintenance	266	334
2) Revenue recognised during the period		
Installation		
– Projects brought forward from prior period	23	14
– ADD: New projects entered during the period	1,914	2,815
– LESS: Projects completed during the period	1,923	2,576
– Projects to be brought forward to next period	14	253
Maintenance		
– Projects brought forward from prior period	435	477
– ADD: New projects entered during that period	266	334
– LESS: Projects expired during that period	224	302
– Projects to be brought forward to next period	477	509

BUSINESS

Projects in progress

Based on our installation contracts on hand, the value of our installation projects in progress (representing the estimated total outstanding contract value for our uncompleted work) as at 31 August 2016 was approximately HK\$4.1 million, of which HK\$2.8 million has been recognised as at the Latest Practicable Date and HK\$1.3 million are expected to be recognised in the year ending 31 August 2017. Moreover, the value of our installation projects in progress as at the Latest Practicable Date was approximately HK\$9.2 million. During the Track Record Period, more than 90% of our installation projects had a contract sum of less than HK\$100,000, and the contract periods of those projects with such relatively smaller contract value were generally within one month. We generally enter into such contracts with the customers within one month before the commencement of our works. Thus our estimated total outstanding contract value for installation contracts on hand as at a particular point of time, for example, the Latest Practicable Date, represents only a small portion of the Group's revenue for each year during the Track Record Period.

Based on our maintenance contracts on hand, the value of our maintenance projects in progress (representing the estimated total outstanding contract value for our services to be provided) as at 31 August 2016 was approximately HK\$25.2 million, of which HK\$7.9 million has been recognised as at the Latest Practicable Date and HK\$8.9 million and HK\$8.4 million are expected to be recognised in the years ending 31 August 2017 and 2018, respectively.

BUSINESS

Our top 10 installation projects by revenue

The following table sets out the top 10 installation projects with the highest revenue contribution to us for the respective years:

For the year ended 31 August 2015

Rank	Project code	Customer	Work description and duration (note 1)	Contract value (note 2) (approximately HK\$'000)	Revenue contributed in the year ended 31 August 2015 (HK\$'000)	Approximate % of our total revenue from installation
1	P1	Customer E	ELV installation nominated subcontract works for a residential development in Kowloon Tong <i>Duration: September 2012 – October 2014</i>	1,458	1,955	6.5%
2	P2	Drainage Sewage Department	Design, supply, installation, testing and commissioning of power quality and energy management system at Tai Po Sewage Treatment Works <i>Duration: January 2012 – January 2016</i>	1,689	1,164	3.9%
3	P3	Electrical and Mechanical Services Department	PA System for Fire Services Training School at Tseung Kwan O <i>Duration: September 2014 – February 2016</i>	2,265	1,075	3.6%
4	P4	Customer F	Installation of smartcard access control system for a residential development in Mei Foo <i>Duration: September 2014 – November 2015</i>	1,023	843	2.8%
5	P5	Octopus	Access control enhancement system development <i>Duration: December 2013 – July 2015</i>	1,331	769	2.5%
6	P6	Customer B	Installation of the HK leading electronic payment system provider's car park system for a residential development in Tseung Kwan O <i>Duration: May 2015 – July 2015</i>	687	681	2.3%
7	P7	Electrical and Mechanical Services Department	Replacement of car park system at Tuen Mun Public Cargo working area <i>Duration: February 2015 – February 2016</i>	986	560	1.9%
8	P8	Customer G	Supply and installation of car park access control system for Haven of Hope Hospital <i>Duration: July 2014 – January 2015</i>	544	544	1.7%
9	P9	Electrical and Mechanical Services Department	Design, supply, delivery, installation, upgrading, testing, commissioning and warranty of supervisory control and data acquisition system for Shek Wu Hui Sewage Treatment Works <i>Duration: May 2012 – October 2014</i>	2,173	540	1.7%
10	P10	Customer B	Installation of the HK leading electronic payment system provider's car park system for a residential development in Tseung Kwan O <i>Duration: August 2014 – February 2015</i>	660	535	1.7%
				Total:	8,666	28.6%

BUSINESS

For the year ended 31 August 2016

Rank	Project code	Customer	Work description and duration (note 1)	Contract value (note 2) (approximately HK\$' 000)	Revenue contributed in the year ended 31 August 2016 (HK\$' 000)	Approximate % of our total revenue from installation
1	P11	Customer H	Replacement of CCTV at outlying pumping stations in North West New Territories region <i>Duration: December 2015 – July 2016</i>	3,315	2,984	6.1%
2	P3	Electrical and Mechanical Services Department	PA System for Fire Services Training School at Tseung Kwan O <i>Duration: September 2014 – October 2015</i>	2,265	1,907	3.9%
3	P13	Customer I	Installation and improvement of CCTV and security access gate system for a residential development in Quarry Bay <i>Duration: May 2016 – October 2016</i>	2,100	1,643	3.3%
4	P14	Customer C	Supply and installation of security access gate system for a commercial building in Central <i>Duration: August 2014 – October 2015</i>	2,390	1,639	3.3%
5	P15	Electrical and Mechanical Services Department	Replacement of car park system at Rambler Channel public cargo working area <i>Duration: April 2015 – August 2016</i>	1,343	1,276	2.6%
6	P16	Architectural Services Department	Upgrading of digital terrestrial television signal for Tong Fuk Correctional Institution <i>Duration: September 2015 – January 2016</i>	1,222	1,222	2.5%
7	P7	Electrical and Mechanical Services Department	Replacement of car park system at Tuen Mun public cargo working area <i>Duration: February 2015 – February 2016</i>	986	937	1.9%
8	P4	Customer F	Installation of smartcard access control system for a residential development in Mei Foo <i>Duration: September 2014 – November 2015</i>	1,023	804	1.6%
9	P19	Electrical and Mechanical Services Department	Provision of additional wireless microphones to existing PA system at Fire Services Training School <i>Duration: February 2016 – March 2016</i>	674	674	1.4%
10	P20	Architectural Services Department	Upgrading of digital terrestrial television signal for Sha Tsui Detention Centre Barrack accommodation <i>Duration: June 2016 – July 2016</i>	634	634	1.3%
				Total:	<u>13,720</u>	<u>27.9%</u>

Notes:

- The duration of work refers to the period from the date of commencement of work stated in the original tender document or contract to the date of completion of work stated in the practical completion certificate or job completion certificate (if available) or in the original tender document or contract.
- The contract value refers to the contract value stated in the original tender document or contract, which is subject to adjustment due to variation orders.

BUSINESS

Our top 10 maintenance projects by revenue

The following table sets out the top 10 maintenance projects with the highest revenue contribution to us for the respective years:

For the year ended 31 August 2015

Rank	Project code	Customer	Work description and duration (note 1)	Contract value (note 2) (approximately HK\$'000)	Revenue contributed in the year ended 31 August 2015 (HK\$'000)	Approximate % of our total revenue from maintenance
1	P21	Customer A	Maintenance, modification and installation works of electronic and E&M control systems at various sewage treatment works and their outstations (including Sewage Treatment Works and outstations in: Shek Wu Hui, Yuen Long, Sham Tseng, Shatin, Sai Kung, Tai Po, Siu Ho Wan, Stonecutters Island) <i>Duration: December 2014 – November 2017</i>	53,389	10,545	40.9%
2	P22	Electrical and Mechanical Services Department	Maintenance and repair of burglar alarm and security installations at various premises of the Government (Health Sector Division, Municipal Sector Division, Transport, Security & Central Services Division) <i>Duration: December 2014 – November 2017</i>	11,206	1,625	6.3%
3	P23	Electrical and Mechanical Services Department	Maintenance of electronic engineering works for Wanchai Sports Ground <i>Duration: August 2013 – August 2015</i>	3,621	1,623	6.3%
4	P24	Leisure and Cultural Services Department	Maintenance and support services to the Leisure Link Self-Service Kiosk System <i>Duration: April 2014 – April 2015</i>	1,237	831	3.2%
5	P25	Electrical and Mechanical Services Department	Maintenance of Andover Central Control and Monitoring System and access control systems at Castle Peak Hospital, Tuen Mun Hospital, Tuen Mun Eye Centre and Siu Lam Hospital <i>Duration: October 2014 – October 2016</i>	720	330	1.3%
6	P26	Drainage Services Department	Maintenance of electronic system of for Hong Kong West Drainage Tunnel and associated works <i>Duration: December 2013 – November 2015</i>	582	283	1.1%
7	P27	Leisure and Cultural Services Department	Maintenance and support services to the Leisure Link Self-Service Kiosk System <i>Duration: May 2015 – May 2016</i>	1,162	238	0.9%
8	P28	Customer C	Maintenance of building management systems (CCTV, Security and PA System) for South Horizons <i>Duration: January 2015 – December 2016</i>	684	228	0.9%
9	P29	Drainage Services Department	Operation and maintenance of Shatin Sewage Treatment Information Centre at Shatin Sewage Treatment Works <i>Duration: December 2014 – November 2015</i>	369	210	0.8%
10	P30	Electrical and Mechanical Services Department	Maintenance, repair, alterations, additions and improvement for broadcast reception installation and SMATV System for the Government <i>Duration: December 2014 – May 2015</i>	207	207	0.8%
Total:					<u>16,120</u>	<u>62.5%</u>

BUSINESS

For the year ended 31 August 2016

Rank	Project code	Customer	Work description and duration (note 1)	Contract value (note 2) (approximately HK\$'000)	Revenue contributed in the year ended 31 August 2016 (HK\$'000)	Approximate % of our total revenue from maintenance
1	P21	Customer A	Maintenance, modification and installation works of electronic and E&M control systems at various sewage treatment works and their outstations (including Sewage Treatment Works and outstations in: Shek Wu Hui, Yuen Long, Sham Tseng, Shatin, Sai Kung, Tai Po, Siu Ho Wan, Stonecutters Island) <i>Duration: December 2014 – November 2017</i>	53,389	13,531	43.4%
2	P22	Electrical and Mechanical Services Department	Maintenance and repair of burglar alarm and security installations at various premises of the Government (Health Sector Division, Transport, Municipal Sector Division, Transport, Security & Central Services Division) <i>Duration: December 2014 – November 2017</i>	11,206	2,271	7.3%
3	P33	Electrical and Mechanical Services Department	Provision of operation and maintenance works for electronic equipment at Wan Chai Sports Ground <i>Duration: December 2015 – November 2018</i>	1,389	1,313	4.2%
4	P34	Electrical and Mechanical Services Department	Maintenance, repair, alterations, additions and improvement for broadcast reception installation and SMATV System for the Government of Hong Kong <i>Duration: December 2015 – November 2018</i>	9,817	832	2.7%
5	P35	Electrical and Mechanical Services Department	Comprehensive maintenance services of vehicle management system at central mail centre <i>Duration: December 2015 – November 2017</i>	840	420	1.3%
6	P36	Architectural Services Department	Maintenance, repair, alterations, additions and improvement for broadcast reception installation and SMATV for the Government of Hong Kong <i>Duration: June 2015 – November 2015</i>	380	385	1.2%
7	P25	Electrical and Mechanical Services Department	Maintenance of Andover Central Control and Monitoring System and access control systems at Castle Peak Hospital, Tuen Mun Hospital, Tuen Mun Eye Centre and Siu Lam Hospital <i>Duration: October 2014 – October 2016</i>	720	360	1.2%
8	P28	Customer C	Maintenance of building management systems (CCTV, Security and PA System) for South Horizons <i>Duration: January 2015 – December 2016</i>	684	342	1.1%
9	P39	Electrical and Mechanical Services Department	Comprehensive maintenance services for ELV systems at Kai Tak Cruise Terminal <i>Duration: January 2016 – December 2016</i>	468	234	0.8%
10	P40	Customer J	Maintenance of car park access control system in Saikung <i>Duration: May 2014 – April 2018</i>	864	217	0.6%
				Total:	<u>19,905</u>	<u>63.8%</u>

Notes:

- The duration of work refers to the period from the date of commencement of our services to the date of completion of our services stated in the original tender document or contract.
- The contract value refers to the contract value stated in the original tender document or contract, which is subject to adjustment due to variation orders.

BUSINESS

SALES AND MARKETING

Marketing policy

Our Directors believe that in general, when our key potential customers (such as Government departments, property developers, property management companies, contractors and security companies) have new projects and require installation and/or maintenance services, they will refer to relevant register of contractors or suppliers and list of approved contractors prepared by the respective Government departments. Certain such registers and lists are publicly available from relevant authorities. We have obtained various qualifications and licences from various Government departments. For details, please refer to the paragraph headed “Business – Key qualifications and licences” in this prospectus. As such, we do not spend much on marketing and promotion for new business.

Project selection

All our business was awarded by tenders during the Track Record Period. Our Directors believe that we have established good relationship with our existing customers over our 13 years in the industry. This enables us to provide our existing customers with continuous maintenance services and/or future system upgrade services as well as to attract new customers in installation opportunities.

During the Track Record Period and up to the Latest Practicable Date, we have received various invitations to tenders. Our Executive Directors and sales team (if installation) and our customer team (if maintenance) would review and evaluate these invitations and decide whether to bid for the project. The key factors on whether to proceed with the tender include but not limited to whether we have obtained the relevant licences and qualification to complete the project, whether we have the capacity to complete the project on time and up to standard, the complexity of the project and the estimated costs. The following table sets out our success rates by service type during our Track Record Period based on our internal record:

Service type	Year ended 31 August					
	2015			2016		
	Number of tender submissions	Number of successful tender	Success rate (%)	Number of tender submissions	Number of successful tender	Success rate (%)
Installation	6,959	1,914	27.5	7,801	2,815	36.1
Maintenance – new	467	109	23.3	448	99	22.1
Maintenance – renew	<u>224</u>	<u>157</u>	70.1	<u>302</u>	<u>235</u>	77.8
Total	<u>7,650</u>	<u>2,180</u>	<u>28.5</u>	<u>8,551</u>	<u>3,149</u>	<u>36.8</u>

BUSINESS

During the Track Record Period, we recorded relatively low success rates for installation and new maintenance projects. It is due to our pro-active strategy to prepare and submit as many tenders as we could in order to secure as many projects as we could during the Track Record Period. In this way, we would build up our customer network as fast as we can. Nevertheless, the success rates of our tenders for installation works and maintenance works increased for the year ended 31 August 2016 when comparing with the success rates for the year ended 31 August 2015. As we have submitted more tenders in the year ended 31 August 2016, the increase in the success rate is consistent with the increase in the number of projects we entered into as well as the increase in our revenue for such year. In addition, the increase in success rate did not have any material adverse impact on our gross profit margin given that our overall gross profit margin during the Track Record Period had an increase of approximately 4.6%. Please also refer to the paragraph headed “Financial information – Description of selected components of combined statements of profit or loss and other comprehensive income – Gross profit and gross profit margin” for details.

Pricing policy

The terms of our contracts (including service fee) are negotiated between our customers and our Company. In general, the terms are determined on a project-by-project basis. During the Track Record Period, we prepared our tenders based on our estimated cost of material and equipment and subcontracting cost plus a mark-up margin. We used to estimate the cost of material and equipment and subcontracting cost by obtaining quotations from the approved suppliers and subcontractors.

During the Track Record Period, in determining our said mark-up margin for each installation work, we primarily considered the factors including: (i) scope of our services; (ii) complexity of the design and installation works; (iii) duration of the project; (iv) costs of equipment to be installed; (v) the level of human resources to be involved; and (vi) training and on-site presentation needed. In determining our said mark-up margin for maintenance works, we generally considered the factors including: (i) scope of maintenance services; (ii) duration of the maintenance services; (iii) the level of human resources to be involved; and (iv) costs of materials to be replaced or fixed. The mark-up margin usually comprised two parts: (i) an amount specifically reserved for our internal cost of human resources (which amount is generally equivalent to approximately 20% of the total estimated costs) and (ii) a target profit. We used to set the final mark-up margin after taking into consideration the chance of obtaining the job with the determined tender price and that the tender price would be able to cover all of our estimated costs for the project as well as generate a profit.

During the Track Record Period, the gross profit margin of our installation service segment was higher than that of our maintenance segment, as (i) we intended to attract more projects and further establish our reputation in the industry; and (ii) we were the subcontractor of several maintenance works and the gross profit margin of subcontractor tends to be lower.

BUSINESS

For the purpose of monitoring closely the profitability of each of the projects we handle, on 1 January 2017, we effected an enhanced internal control policy pursuant to which we prepare our tenders based on both the estimated cost of material and equipment and estimated labour cost of each project plus a mark-up margin.

Credit policy

Our Group does not have a standardised and universal credit period granted to our customers. We issue our invoices to the customers in accordance with the relevant purchase orders or contracts. Unless otherwise stated in the relevant purchase orders or contracts, our accounting team informs customer services team of any unsettled invoices for 30 days or more and our customer services team contacts the relevant customers for settlement of the outstanding invoice.

In addition, in some installation projects, the work we handled only formed part of the customer's entire system, and the customer also engaged other contractors to handle the other parts of the system. In such case, only until every contractor finished their respective work, the customer would not be able to test the functioning of the entire system. As confirmed by our Directors, it is the industry practice that the customer would only pay the contractors when the testing of the entire system is satisfactorily performed and completed.

Payments from our customers are generally settled by cheque or bank transfer.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any bad debt or provisioning made for our trade receivables.

CUSTOMERS

We serve customers in both private and public sectors. Our customers in the private sector mainly consist of property developers and property management companies in Hong Kong whereas our customers in the public sector are mainly Government departments such as Drainage Services Department, Leisure and Cultural Services Department, Electrical and Mechanical Services Department, etc. We had served approximately 130 customers for each of the two years ended 31 August 2015 and 2016, respectively.

For each of the two years ended 31 August 2015 and 2016, the revenue from our five largest customers amounted to approximately HK\$34.1 million and HK\$54 million, respectively, accounting for approximately 60.8% and 70.1% of our total revenue, respectively; and our largest customer accounted for approximately 20.3% and 31.3% of our total revenue, respectively.

BUSINESS

The following two tables set forth the details of our five largest customers during the Track Record Period:

Five largest customers for the year ended 31 August 2015

Rank	Customer	Background	Project nature (public/private sector)	Year of business relationship with our Company as at the Latest Practicable Date	Revenue contributed (HK\$'000)	Approximate % of our total revenue
1	Customer A	A group of companies the holding company of which is listed on the Stock Exchange of Hong Kong. The principal activities of Customer A include, among others, construction and engineering, insurance and investment, property and hotel, lifestyle food and beverage and information technology.	Private	6	11,401	20.3%
2	Electrical and Mechanical Services Department	Government department	Public	4	8,746	15.6%
3	Customer B	A construction company listed in the Stock Exchange of Hong Kong. The principal activities of Customer B include building construction, civil engineering, electrical and mechanical installation, interiors and special projects, property development and investment, and provision of property and facility management services.	Private	6	7,116	12.7%
4	Customer C	A group of companies the holding company of which is listed on the Stock Exchange of Hong Kong. The core businesses of Customer C include, among others, ports and related services, retail, infrastructure, energy, telecommunications and finance and investments.	Private	7	3,499	6.2%
5	Customer D	A property development group the holding company of which is listed on the Stock Exchange of Hong Kong. The principal activities of Customer D include, among others, property ownership and development, investments and treasury, property services businesses, hotels and entertainment.	Private	8	3,338	6.0%
Total:					<u>34,100</u>	<u>60.8%</u>

Note: All of the five largest customers for the year ended 31 August 2015 were repeated customers which had engaged our Group to provide services for more than once.

BUSINESS

Five largest customers for the year ended 31 August 2016

Rank	Customer	Background	Project nature (public/private sector)	Year of business relationship with our Company as at the Latest Practicable Date	Revenue contributed (HK\$'000)	Approximate % of our total revenue
1	Electrical and Mechanical Services Department	Government department	Public	2	25,169	31.3%
2	Customer A	A group of companies the holding company of which is listed on the Stock Exchange of Hong Kong. The principal activities of Customer A include, among others, construction and engineering, insurance and investment, property and hotel, lifestyle food and beverage and information technology.	Private	6	14,936	18.6%
3	Architectural Services Department	Government department	Public	1	6,242	7.8%
4	Customer C	A group of companies the holding company of which is listed on the Stock Exchange of Hong Kong. The core businesses of Customer C include, among others, ports and related services, retail, infrastructure, energy, telecommunications and finance and investments.	Private	7	5,806	7.2%
5	Customer D	A property development group the holding company of which is listed on the Stock Exchange of Hong Kong. The principal activities of Customer D include, among others, property ownership and development, investments and treasury, property services businesses, hotels and entertainment.	Private	8	4,151	5.2%
Total:					<u>56,304</u>	<u>70.1%</u>

Note: All of the five largest customers for the year ended 31 August 2016 were repeated customers which had engaged our Group to provide services for more than once.

Our top five customers during the Track Record Period were Independent Third Parties. None of our Directors, Shareholders (who to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our top five customers during the Track Record Period.

Key contract terms with our customers

For installation projects, we usually enter into agreements with our customers on a project-by-project basis and are generally non-recurring in nature. For maintenance service agreements, they generally last for one to three years. The following paragraphs set forth the general terms of engagement with customers in respect of installation service and maintenance service.

BUSINESS

Installation project

Key terms	Description
Scope of work and equipment to be purchased	This is generally in the form of a price list with breakdown of the unit price of each equipment to be installed and the service fee for certain scope of work to be performed.
Commencement and completion date	A project is generally completed (excluding maintenance service) when our customer has performed the user's acceptance test and signs off the commission form.
Terms of payment	We may be paid upon completion of our works. In some cases, we may require our customers to settle up to 50% of the total fee upon their acceptance of our tender as prepayment. For certain projects, we may be paid by progress payments on milestone.
Anti-collusion	For projects obtained through tender, we are required not to communicate with any person other than our customer the amount of any tender or otherwise collude with any other person to adjust the amount of any tender.
Compensation	In the event that we are unable to complete our work to the satisfaction of our customers within the specified time period, we may be required to compensate our customers at a pre-agreed rate of damages.
Variation orders	Our customers may amend the specifications and scope of works from that originally contracted. A variation order may increase, omit or vary the original scope of work and alter the original contract sum. The value for the variation order will be agreed between our customer and us.
Retention	Some of our customers may retain approximately 5% to 10% of the contract price until the one-year warranty period expires.
Warranty period	Products provided to our customers are generally covered by a warranty period of one year.
Intellectual property rights	Some of our customers may require us to undertake that products supplied by us do not infringe the intellectual property rights of any third party.

BUSINESS

Maintenance services

Key terms	Description
Scope of work	Description/form of service required and the maintenance fee. Form of service required generally sets out the number of on-site service calls or repair visits and number of on-site preventive maintenance visits included in the service contract.
Duration	Our maintenance services typically last for a period of 12 to 36 months.
Terms of payment	Based on the acknowledgement for completion of work submitted by the technicians, we will issue invoice to customers on a regular basis.
Termination	Some agreements may have a termination clause.

SUPPLIERS

We source hardware such as security cameras, display devices, cables and wires, and electronic and electrical components, as well as systems such as smartcard and access control systems from local and overseas suppliers. Our working relationships with many of these suppliers have lasted from 1 to 11 years.

For each of the two years ended 31 August 2015 and 2016, the total purchases made from our five largest suppliers amounted to approximately HK\$4.2 million and HK\$5.7 million, respectively, which accounted for approximately 36.5% and 35.3%, respectively, of our total cost of material and equipment for the relevant year. The purchases from our largest supplier accounted for approximately 10.2% and 15.1% of our total cost of material and equipment for each of the two years ended 31 August 2015 and 2016, respectively.

BUSINESS

The following two tables set forth the details of our five largest suppliers during the Track Record Period:

Five largest suppliers for the year ended 31 August 2015

Rank	Supplier	Type of goods/services provided by our supplier	Year of business relationship with our Company as at the Latest Practicable Date	Costs of material and equipment (HK\$'000)	Approximate % of our total material and equipment
1	Supplier A	Smartcard and access control system	1	1,170	10.2%
2	Supplier B	Security camera	4	1,013	8.8%
3	Supplier D	Security camera and display device	5	872	7.6%
4	Supplier H	Access control system	11	589	5.1%
5	Supplier C	Software	5	550	4.8%
Total:				<u>4,194</u>	<u>36.5%</u>

Five largest suppliers for the year ended 31 August 2016

Rank	Supplier	Type of goods/services provided by our supplier	Year of business relationship with our Company as at the Latest Practicable Date	Costs of material and equipment (HK\$'000)	Approximate % of our total material and equipment
1	Supplier D	Security camera and display device	5	2,423	15.1%
2	Supplier E	Cable and wire	5	1,121	7.0%
3	Supplier F	Security camera	5	825	5.1%
4	Supplier H	Access control system	11	692	4.3%
5	Supplier G	Stainless steel power box	5	599	3.7%
Total:				<u>5,660</u>	<u>35.2%</u>

Our top five suppliers during the Track Record Period were Independent Third Parties. None of our Directors, Shareholders (who to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) nor their respective close associates had any interest in any of our top five suppliers during the Track Record Period.

BUSINESS

We normally place orders with our suppliers on a project-by-project basis. We check and inspect the materials and equipment upon delivery to our offices and workshops before delivery to sites for consumption. During the Track Record Period, we did not experience any shortage or delay in supply of hardware and software that significantly affected our business.

Supplier selection

Our Group maintains an internal list of approved suppliers. We select our suppliers based on a number of factors, including their (i) product quality; (ii) timely supply; and (iii) stability. We generally select the most suitable supplier from the approved list depending on requirements of the project and specifications from our customers, subject to the availability and fee quotations of our suppliers.

Key contract terms with our suppliers

We normally place purchase orders with our suppliers. The key contract terms with our suppliers typically include, amongst others, the followings:

Key terms	Description
Specifications and quantities of equipment to be purchased	This is generally in a form of price list showing the unit price and specifications of each equipment.
Delivery	<p>The ordered equipment is usually delivered to our warehouse but in some cases, we may arrange for direct delivery to our customers' designated site for installation.</p> <p>For overseas suppliers, the costs of transportation, including freight charges, international handling fees and insurance costs (where applicable), are generally borne by us. If the equipment is damaged during delivery, liability will generally rest with us and is covered by insurance.</p>
Terms of payment	<p>Our suppliers generally require us to settle 30% to 50% of the total purchase price upon their confirmation of our purchase orders as prepayment.</p> <p>Our suppliers generally issue an invoice to us for the outstanding payment upon delivery of the equipment. The average credit period on purchase of goods is 30 days.</p>

BUSINESS

Key terms	Description
	Certain suppliers require us to pay upon presentation of the invoice or upon delivery of the materials or goods supplied to us.
Product return	<p>Upon the arrival of the equipment, we will examine the same and report to the relevant suppliers if defective goods are found. Our suppliers then arrange for replacement of the equipment to us and bear all the relevant costs.</p> <p>The defective equipment is then delivered back to the relevant suppliers and we generally bear the costs of delivery incurred in the product return.</p>
Warranty period	Our suppliers generally grant us a warranty period of one year for the equipment.

OUTSOURCING

We outsource to subcontractors certain installation work including technical installation (such as conduit laying and cable installation), electrical maintenance and software programming. We outsource such work to our subcontractors because we consider that (i) this minimises our need to employ a large workforce and special skilled labour in certain specialised areas; and (ii) this increases our flexibility and cost effectiveness in carrying out the projects.

We have our internal approved list of subcontractors for each type of project. In order to be included in our internal approved list of subcontractors, a subcontractor needs to demonstrate that it has the relevant licences and qualifications and it has relevant job experience from previous job references. We also will perform annual review on those subcontractors on our list to ensure their capability and that their work is up to standard. In general, we will invite at least two subcontractors to submit tender for each project. Our Executive Directors together with our installation team and sales team will decide which subcontractors to use for each project based on our previous work experience with them. The Directors confirm that we did not have any material disputes with our subcontractors during the Track Record Period. We have not entered into any long term agreement with our subcontractors during the same period. Our working relationship with our major subcontractors range from 1 to 5 years. Our Directors consider that we maintain a good business relationship with our subcontractors.

BUSINESS

For each of the two years ended 31 August 2015 and 2016, subcontracting payment attributable to our five largest subcontractors collectively amounted to approximately HK\$7.7 million and HK\$4.5 million, respectively, which accounted for approximately 83.5% and 66.3%, respectively, of our total subcontracting fee for the relevant year.

The following two tables set forth basic information of our five largest subcontractors during the Track Record Period:

Five largest subcontractors for the year ended 31 August 2015

Rank	Subcontractor	Type of goods/services provided by our subcontractor	Year of business relationship with our Company as at the Latest Practicable Date	Subcontracting fee (HK\$'000)	Approximate % of our total subcontracting fee
1	Subcontractor A	Technical installation	5	3,280	36.3%
2	Subcontractor B	Technical installation	2	1,796	19.9%
3	Subcontractor C	Software programming	4	1,261	14.0%
4	Subcontractor D	Technical installation	3	669	7.4%
5	Subcontractor E	Electrical maintenance	3	530	5.9%
Total:				<u>7,536</u>	<u>83.5%</u>

Five largest subcontractors for the year ended 31 August 2016

Rank	Subcontractor	Type of goods/services provided by our subcontractor	Year of business relationship with our Company as at the Latest Practicable Date	Subcontracting fee (HK\$'000)	Approximate % of our total subcontracting fee
1	Subcontractor F	Security solution	2	1,684	24.8%
2	Subcontractor A	Technical installation	5	856	12.6%
3	Subcontractor G	Technical installation	1	721	10.6%
4	Subcontractor H	Technical installation	4	675	10.0%
5	Subcontractor I	Technical installation	4	562	8.3%
Total:				<u>4,498</u>	<u>66.3%</u>

BUSINESS

Key contract terms with our subcontractors

The key contract terms with our subcontractors typically include, amongst others, the followings:

Key terms	Description
Project scope	Scope of the subcontract works to be outsourced
Commencement and completion date	When the project starts and expected duration
Terms of payment	Subcontractors generally issue an invoice to us for the outstanding payment upon completion of the projects.
Anti-collusion	For projects obtained through tender, we require our subcontractors not to communicate with any person other than us the amount of any tender or otherwise collude with any other person to adjust the amount of any tender.
Compensation	In the event that the subcontractors are unable to complete their work to our satisfaction within the specified time period, they may be required to compensate us at a pre-agreed rate of damages.
Retention	We may retain approximately 5% to 10% of the contract price until the one-year warranty period expires.
Warranty period	Products provided to us are generally covered by a warranty period of one year.
Intellectual property rights	We may require the subcontractors to undertake that products supplied to us do not infringe the intellectual property rights of any third party.

BUSINESS

QUALITY CONTROL

Our Directors consider that one of the factors contributing to our Company's success is our ability to deliver quality services to our customers. Our Directors believe that maintaining a high level of service quality is vital to enhancing the competitiveness of our Company and therefore we have implemented internal policies and procedures to ensure the delivery of quality services.

Quality control in procurement of equipment from suppliers

Our Company maintains an internal list of approved suppliers. We carefully evaluate suppliers taking into account of, amongst other things, quality of their products, timely supply and stability. Please refer to the paragraph headed "Business – Suppliers" in this prospectus for further details. We generally select the most suitable supplier from the approved list depending on requirements of the projects and specifications from our customers, subject to the availability and fee quotations of our suppliers. We will check and inspect the materials and equipment upon delivery to our offices and workshops. Any equipment that fails to meet our quality standard and requirements will be returned to our suppliers for replacement or refund.

Quality control in end products

To ensure that the quality of our work is in conformity with the customers' specifications, before delivering the end products to our customers, our sales team, installation team together with the customer will carry out user acceptance test which generally comprises a series of performance check to ensure that the final products we provide to our customers are up to the standards as agreed with our customers. Any products that fail to meet the standards will be notified to our installation team for rectification. Our project manager will also control and monitor each step in our operating procedures to ensure the adherence to stringent quality standards.

Our Directors consider that the capability of our Company in quality assurance is evidenced by the fact that our Company had not experienced any significant product return or material quality dispute with our customers during the Track Record Period. We believe that our Company's commitment to high quality and reliability helps strengthen the recognition and trust among our customers, which would in turn result in increased sales of our Company.

KEY QUALIFICATIONS AND LICENCES

A summary of the laws and regulations related to our business and industry is set out in the section headed "Regulatory overview" in this prospectus.

BUSINESS

As at the Latest Practicable Date, EC Infotech had obtained the following qualifications and licences that are material to our business operations in Hong Kong:

Issuing authorities	Qualifications/licence	Issue date	Expiry date
Buildings Department	Registered Minor Works Contractor (Type A – Alternative and Addition Works (Classes II & III) and Type C – Works relating to Signboards (Classes II & III))	5 July 2013	6 June 2019
Security Bureau – Security and Guarding Services Industry Authority	Type III licensed security company – Installation, maintenance and/or repairing of a security device and/or designing (for any particular premises or place) a security system incorporating a security device	27 April 2012	26 April 2017
Office of the Communications Authority (previously known as Office of the Telecommunications Authority)	Radio Dealers Licence (Unrestricted)	8 April 2009	renewable annually on 1 May
Office of the Communications Authority (previously known as Office of the Telecommunications Authority)	Satellite Master Antenna Television Licence	9 January 2008	renewable annually on 1 February
Electrical and Mechanical Services Department	Registered Electrical Contractor	8 April 2015	13 April 2018
Construction Industry Council	Registered under Subcontractor Registration Scheme for the following trade Specialties: (i) broadcast reception installation; (ii) burglar alarm and security; (iii) E & M installation for sewage treatment; (iv) security and communication system; and (v) audio and video electronic equipment	3 May 2016	2 May 2018

EC Infotech is included in the approved contractors or suppliers list of the following Government departments and public bodies:

Government department	Approved list	Inclusion/admission date	Expiry date
Drainage Services Department, Sewage Treatment Division 1	Included in the Sewage Treatment Division Contractor List under the category of Minor Electronic Engineering Works for Sewage Treatment	20 March 2011	N/A

BUSINESS

Government department	Approved list	Inclusion/ admission date	Expiry date
Electrical and Mechanical Services Department	Admitted to in-house contractors list under the works category of Electronic System Integration	5 May 2011	N/A
	Departmental contractor list for Biomedical & Electronics Engineering Services – Central Control and Monitoring System	5 December 2012	N/A
Leisure and Cultural Services Department	Inclusion in the list of suppliers (<i>note 1</i>)	31 January 2012	N/A
Government Logistics Department	Inclusion in the list of suppliers (<i>note 2</i>)	23 March 2012	N/A
Development Bureau	Included in the List of Approved Suppliers of Materials and Specialist Contractors for Public Works under the categories of:		
	Burglar Alarm and Security Installation	4 July 2013	N/A
	Broadcast Reception Installation	8 October 2013	N/A
	Audio Electronics Installation (Probation Status)	28 November 2013	N/A
Hong Kong Housing Society	Video Electronics Installation	9 November 2015	N/A
	Included in the approved contractors list under the category of: Specialist Contractors for Maintenance and Improvement Work of CABD & Security Systems	10 January 2013	N/A

In addition to the above qualifications and licences, we are one of Octopus' authorised contractors for club house company, authorised car park contractors companies and authorised contractors for access control system company.

BUSINESS

Notes:

1. EC Infotech has been included in Leisure and Cultural Services Department's list of suppliers for the following commodities: (i) safes and security equipment; (ii) public address system/telecommunication equipment; (iii) information technology consultancy/management consultancy; (iv) smart card device products; (v) information security services; (vi) IT system development services; (vii) smart card solution services; (viii) content maintenance; (ix) web design; (x) web development; (xi) web hosting; (xii) network/security product and related maintenance; and (xiii) server/storage product and related maintenance.
2. EC Infotech has been included in Government Logistics Department's list of suppliers for the following commodities: (i) television sets; (ii) radio-broadcast receivers (including complete set of hi-fi equipment), incorporating sound recorders or reproducers; (iii) close-circuit television systems; (iv) audio system/equipment, not elsewhere specified (e.g. for radio broadcasting); (v) video system/equipment, not elsewhere specified (e.g. for TV broadcasting/production); (vi) radio transmitters and receivers; (vii) interactive voice response/processing systems; (viii) intercommunication systems; (ix) private automatic branch exchange system; (x) audio/visual presentation equipment.

To ensure that our Company is able to timely obtain and maintain all the necessary registrations/licences for our operations in Hong Kong, our Executive Directors, human resources department and administration department team are responsible for keeping track of the validity periods of the registrations/licences maintained and/or held by our staff and arranging renewal when necessary in a timely manner. Our Company has successfully renewed its aforementioned registrations/licences since its first registration as set out in the table above.

Our Directors confirm that we have obtained all the necessary licences, permits and registration required for our business activities during the Track Record Period. We will apply for other relevant licences, permits and approvals in the future when necessary.

CERTIFICATIONS AND AWARDS

The following table sets forth our major certifications received by us:

Year(s) awarded	Certifications	Awarding body/Award Scheme	Expiry date
2014	ISO14001:2004 environmental management system standard applicable to Supply and Installation of Smart Card and CCTV system	Accredited Certification International Limited	12 March 2017
	ISO9001:2008 quality management system standard applicable to Supply and Installation of Smart Card and CCTV system	Accredited Certification International Limited	12 March 2017

BUSINESS

The following table sets forth our major awards and recognitions received by us:

Year(s) awarded	Award	Awarding body/Award Scheme
2014	“Hong Kong Most Valuable Companies Awards 2014”	Mediazone Publishing
2015	“Most Valuable Services Awards in Hong Kong 2015”	Mediazone Publishing
2016	“Outstanding Social Caring Organisation Award”	Social Caring Organisation
	“Model Subcontractor Award – Silver Award” under 22nd Considerate Contractors Site Award Scheme	Jointly by Development Bureau and Construction Industry Council
	“Most Valuable Companies in Hong Kong 2016”	Mediazone Publishing
	“Hong Kong Famous Brands Award 2016”	Asia Brand Development Association

ENVIRONMENTAL MATTERS

We would perform an environmental study for each project to identify any potential environmental issues, including but not limited to waste management, air emission and noise. Relevant plan will be implemented to mitigate these issues. Please refer to the section headed “Regulatory overview” for further details.

Our Directors confirm that we were not prosecuted for any breach of any applicable environmental laws and regulations during the Track Record Period.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered the domain name *www.ecinfohk.com*. We have taken appropriate steps to protect our intellectual property rights.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claim against our Company for infringement of any intellectual property right nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by us against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

BUSINESS

EMPLOYEES

Number of employees by function

As at the Latest Practicable Date, our Company had a total of 155 employees. All of our employees are stationed in Hong Kong. Below table presents a breakdown of the number of our employees by function as at the Latest Practicable Date :

	As at the Latest Practicable Date
Executive Directors	2
Administration	18
Customer service team	5
Sales team	2
Technical teams	
• Installation teams	25
• Maintenance teams	98
Accounting and finance	3
Human resources	<u>2</u>
Total	<u><u>155</u></u>

Recruiting & retention

Our recruitment policy is based on a number of factors including the level of knowledge and experience we require from our staff. We believe we are able to hire suitable candidates in the market by offering attractive remuneration packages, including competitive salary and promotion prospects, to our employees. Our human resources team are responsible for recruiting our employees from the open market, through placing advertisement on websites and referrals from our existing employees. We enter into standard employment contracts with all our employees which set out terms such as remuneration and confidentiality requirements.

We offer attractive remuneration packages and career development opportunities in an effort to maintain employee loyalty and retention. Salary level of our employees are reviewed and adjusted from time to time based on their performance and the market conditions. We have also implemented a discretionary bonus system for awarding bonus to employees with good performances. In addition, we organise staff relations activities such as annual dinner regularly to maintain a cooperative and caring culture with our employees.

BUSINESS

Remuneration

Our remuneration package for our employees generally includes salary and/or discretionary bonus. Our employees also receive welfare benefits, including medical care and training sponsorship. We participate in the mandatory provident fund scheme prescribed by the Mandatory Provident Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees, and we have made the relevant contributions in accordance with the aforesaid laws and regulations.

Our staff cost, including salaries and other employee's benefits, amounted to approximately HK\$20.9 million and HK\$32.3 million for each of the two years ended 31 August 2015 and 2016, respectively, which accounted for approximately 37.3% and 40.2%, respectively, of our revenue for the relevant year.

Staff training

Work safety trainings are provided to our operational staff. Moreover, training sponsorship will be provided to our employees for acquiring industry qualifications.

Relationship with employees

During the Track Record Period and up to the Latest Practicable Date, there had not been any labour strike within our Company nor have we experienced any significant problems with our employees or disruption to our operations due to labour disputes. We believe that we have maintained a good relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by our employees.

HEALTH AND WORK SAFETY

Our Directors are of the view that safety management is a vital part of our business as some of our projects may involve high-risk activities such as carrying out installation works which exposes our employees to electrical hazards, at heights or in confined space. As such, safety is treated as our first priority during the delivery of our services. We have adopted and implemented occupational health and safety procedures and measures for our business operations and have taken further measures to ensure that our employees are aware of the safety protocols. Summarised below are the key aspects of our safety measures:

- we would ensure our employees possess relevant safety permits/registrations for carrying out high risks activities;
- our staff would inspect the sites regularly to ensure that the relevant safety requirements are met;

BUSINESS

- we have established guidelines for work safety and occupational health safety and emergency safety handbook for circulation to our employees to raise the awareness of occupational health and safety among our employees; and
- regular training sessions for employees on workplace safety would be conducted regularly.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, our Company had complied with the relevant health and workplace safety regulatory requirements in all material respect and did not experience any incidents or complaints which had materially and adversely affect the financial condition or business operations of our Company.

INSURANCE

For our employees, we maintain employees' compensation insurance in compliance with the Employees' Compensation Ordinance to cover compensation and costs liable by our Company for personal injuries of our employees in the course of employment with us. We also maintain third-party insurance and public liability insurance for our business operations in Hong Kong. Our Directors consider that our insurance coverage is sufficient and in line with normal commercial practice in Hong Kong.

For the two years ended 31 August 2015 and 2016, the total insurance expenses paid by our Company amounted to approximately HK\$429,000 and HK\$482,000, respectively. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not made nor been the subject of any material insurance claim.

MARKET AND COMPETITION

According to the F&S Report, the value of ELV Integrated Service Industry experienced a positive growth from around HK\$207.4 million in 2010 to around HK\$430.5 million in 2015 at a CAGR of around 15.7%. Key reasons for such growth is driven by the development of Hong Kong property market, continuous increase in construction investments, and increasing usage of automation in buildings, ELV integrated service market of Hong Kong is projected to sustain the rapidly growing stage in the next few years and the value of this market is expected to reach HK\$728.5 million in 2020, representing a CAGR of 11.1%.

In 2015, the total sales revenue in the ELV integrated service market recorded approximately HK\$430.5 million, the competition in Hong Kong ELV market was relatively concentrated with the top five competitors together occupied approximately 72.3% market share of the overall sales revenue. Our Group shared about 14.5% of the industry revenue in 2015. Our Directors believe that there are entry barriers which hinder new players from entering into the industry, such as qualifications of the new comers, long term relationship with customers, reliable suppliers and sufficient experienced hands.

BUSINESS

For further details, please refer to the section headed “Industry overview” in the prospectus. Our Directors believe that our competitive strengths will enable us to maintain our position as one of the active market players in the industry in Hong Kong. For details of our competitive strengths, please refer to the paragraph headed “Business – Competitive strengths” in this prospectus.

SEASONALITY

Our Directors confirm that due to the nature of our business, our operations are not affected by seasonality.

PROPERTIES

As at the Latest Practicable Date, we owned the following property in Hong Kong:

Number	Address	Usage	Approximate saleable area (sq. ft.)
1.	Factory D on 3/F of Block II of Camelpaint Buildings, Block I and Block II, No. 62 Hoi Yuen Road, Kowloon, Hong Kong	Workshop, storage and ancillary office and our Company’s registered office	2,665

Please refer to the valuation of our property interests set out in Appendix III to this prospectus for further details.

BUSINESS

As at the Latest Practicable Date, we leased the following properties in Hong Kong from Independent Third Parties:

Number	Address	Usage	Rental type	Approximate saleable area (sq. ft.)	Term
1.	Factory C on 12/F of Block II of Camelpaint Buildings, Block I and Block II, No. 62 Hoi Yuen Road, Kowloon, Hong Kong	Workshop, storage and ancillary office	Basic rent	2,665	3 years commencing on the 1st day of November 2015 and expiring on the 31st day of October 2018 (both days inclusive)
2.	Unit W5(A) on 1st Floor of Block 2, Nos. 460-470 Kwun Tong Road, Kwun Tong Industrial Centre, Kowloon, Hong Kong	Storage	Basic rent	399	1 year commencing on the 1st day of February 2017 and expiring on the 31st day of January 2018 (both days inclusive)

LEGAL PROCEEDINGS AND COMPLIANCE

Claims settled, pending or threatened against our Group

During the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

BUSINESS

Non-compliance incident of our Group during the Track Record Period and as at the Latest Practicable Date

Below sets out the non-compliance incident with applicable laws and regulations of our Group during the Track Record Period and as at the Latest Practicable Date. Our Directors are of the view that this non-compliance matter, whether individually or collectively, will not have a material operational or financial impact on our Group.

Relevant section(s) of the ordinance	Details of the non-compliance incident	Reasons for the non-compliance	Remedial action taken/to be taken	Legal Consequences
Non-compliance with Section 11(2) of the Security and Guarding Services Ordinance	Authorising one unpermitted individual to do security work for reward between 23 September 2014 and 1 December 2014	The non-compliance was due to oversight of operational staff	Additional staff of human resources department has been employed. A register has been set up with information including names of staff, types of licenses held by staff and expiry dates of the relevant licenses. The register is updated and monitored by officers of the human resources department on a monthly basis	Under Section 31(1) of SGSO, the maximum penalty for breaching Section 11(2) of SGSO is liable on conviction HK\$100,000 and imprisonment for 2 years. EC Infotech was prosecuted on 30 January 2015 and was liable for a fine of HK\$2,000. The fine has been settled on 16 March 2015.

Views of our Directors and the Sponsor

As set out in the paragraphs headed “Health and work safety”, “Environmental matters”, “Internal control and corporate governance” and “Legal proceedings and compliance – Non-compliance incident of our Company during the Track Record Period and as at the Latest Practicable Date” in this section, our Company has laid down and implemented detailed internal control and corporate governance measures to monitor ongoing compliance with the relevant laws and regulations to prevent the occurrence of any non-compliance in the future. Our Directors believe that the corporate governance and internal control measures could effectively ensure a proper internal control system and maintain good corporate governance practices of our Company. In view of the measures in place, our Directors are of the view, and the Sponsor concurs, that these systems are sufficient and effective to ensure ongoing compliance with the relevant laws and regulations by our Company.

BUSINESS

Our Directors consider that the abovementioned non-compliance incident would not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules, having taken into account the fact that (i) we have taken various internal measures to avoid recurrence of non-compliance incident; and (ii) the above non-compliance incident was unintentional and inadvertent and did not involve any fraudulent act on the part of our Directors and the non-compliance incident did not undermine the integrity of our Executive Directors.

Our Directors are of the view, and the Sponsor concurs, that the past non-compliance incident (i) does not involve any dishonesty on the part of our Directors or cast any doubt on their integrity or competence; (ii) does not affect our Directors' suitability to act as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules; and (iii) do not affect our Company's suitability for listing under Rule 11.06 of the GEM Listing Rules.

INTERNAL CONTROL AND CORPORATE GOVERNANCE

Internal control measures to prevent recurrence of non-compliance incidents

In order to achieve high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole and to prevent recurrence of non-compliance incidents, we intend to adopt or have adopted the following measures:

- our Directors attended training sessions provided by our legal advisers as to Hong Kong laws on applicable laws and regulations in Hong Kong on 4 October 2016, including the GEM Listing Rules and will continue to do so on a continuing basis;
- independent non-executive Directors are appointed to enhance the diversity of our Board and to provide independent view, monitoring and advice to our Company;
- we will establish an audit committee, which will set up formal arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations;
- we will oversee our compliance matters and seek timely legal advice from external professional advisers where necessary;
- our Executive Director and compliance officer, Dr. Ng, is responsible for the day-to-day compliance matters of our Group and will report to our Board in relation to the potential non-compliance issue identified on a timely basis and, if necessary, consult external professional for advice to address to the potential issue; and
- we have engaged Kingsway Capital Limited as our compliance adviser to advise us on the compliance matters under the GEM Listing Rules.

BUSINESS

Internal control measures to rectify our internal control weakness on project budgeting and monitoring

Background of the relevant internal control weakness before enhancement

We did not record the time spent by each member of our installation teams and maintenance teams on each installation and maintenance project for recording the direct labour costs on each project.

In order to prepare our tenders for installation projects during the Track Record Period, we estimate our cost of material and equipment and subcontracting cost and then add a mark-up margin on top. The mark-up margin usually comprises two parts: (i) an amount specifically reserved for our internal cost of human resources (which amount is generally equivalent to approximately 20% of the total estimated costs); and (ii) a target profit. We used to set the final mark-up margin after taking into consideration the chance of obtaining the job with the determined tender price and that the tender price would be able to cover all of our estimated costs for the projects as well as generate a profit. As the direct labour costs for installation projects constituted a relatively small percentage of the Group's total costs of sales for installation projects during the Track Record Period (representing approximately 12.9% and 21.9% of the Group's total costs of sales for installation projects), our Directors were of the view that the reference to budgeted and incurred costs of material and equipment and subcontracting costs as well as the comparison of their budgeted and actually incurred amounts was sufficient for us to set a reasonable tender price which would guarantee the profitability of the relevant project. We recorded the actual gross profit margin for our installation service segment of approximately 40.1% and 49.0% during the Track Record Period.

During the Track Record Period, the direct labour costs accounted for approximately 69.2% and 76.0% of the Group's total costs of sales for maintenance projects. In order to prepare our tenders for maintenance projects during the Track Record Period, we estimated the required staff for each project and estimated the labour costs and other material and (equipment costs (if any), then we added a mark-up margin on top. Although we did not record the time spent by each member of our maintenance teams on each maintenance project, we kept daily record on the work orders performed by each member of our maintenance teams so as to monitor the allocation of our human resources to each maintenance project. Since our maintenance services generally involve routine checks and corrective maintenance works and the time for such checks and works do not vary materially, our Directors considered that the above daily record, though did not provide the actual time spent on each project, served as a means for our Group to review the number of maintenance work orders performed by the relevant number of maintenance personnel, and therefore, enabled us to estimate the labour costs incurred on each maintenance project and monitor the allocation of our human resources and labour costs on our maintenance projects as well as have a general picture on the profitability of the maintenance projects. We recorded the actual gross profit margin for our maintenance service segment of approximately 16.2% and 9.6% during the Track Record Period.

BUSINESS

Moreover, during the Track Record Period, we did not prepare the breakdown of revenue, gross profit and gross profit margin by products types because some customers of our Group required us to provide integrated ELV solutions which comprised more than one type of ELV solutions under a single contract and we were not able to provide such breakdown. However, the Directors considered that the two types of our ELV solutions by their nature do not have different applications as both types of the ELV solutions are generally applied to all types of buildings and facilities. Therefore, the Directors considered that we have alternative measures to ensure we can achieve the expected profitability of our Group as a whole during the Track Record Period.

During the Track Record Period, in order to achieve our expected profitability of our Group as a whole, we put in place the following measures:

- a. our operation manager was designated to check whether the purchase price of materials and equipment and the subcontracting costs for each project were in accordance with the quotations we obtained for tender;
- b. the team leaders of our installation teams and maintenance were responsible to allocate our staff in accordance with the allocation schedule of human resources we planned for the implementation of the projects; and
- c. our chief executive officer monitored the progress of all outstanding projects on a daily basis to avoid any project delay which might lead to cost overruns. He also reviewed the management accounts, accountants payable aging report and accounts receivable aging report of our Group on a monthly basis to monitor the financial performance of our Group as a whole.

The scope of work of Baker Tilly Hong Kong Risk Assurance Limited (“**Baker Tilly**”), an internal control adviser, also included reviewing and assessing our procedures, systems and controls (including accounting and management systems) during the internal control review period. According to the results of the reviews performed by Baker Tilly, it did not note any material deficiency over our internal control mechanism.

BUSINESS

Internal control weakness

The above measures led to weaknesses in the internal control system of our Group because our Group were not able to know the direct labour costs incurred in each project we handled and assess whether our tender price was reasonable, whether the relevant project was profitable and, if profitable, its gross profit margin.

Delays, cost overruns or mismatch of actual time and costs with our estimates may cause our profitability to be lower than what we expected or may expose us to litigation or claims from customers in case of delays. If we fail to monitor the project expenses throughout the implementation of the project, we may not be able to minimise the adverse effect of any cost overruns on our profitability.

Please also refer to the subparagraphs headed “We prepare our tender based on estimated cost plus a mark-up margin, and there is no assurance that the actual time and costs incurred by us would match our initial estimate” and “Even we have established internal control system on monitoring our costs, the actual costs incurred by us may be affected by changes in market conditions and we may incur cost overrun” under the paragraph headed “Risk factors – Risks relating to our business” for further discussion on such risks.

Enhanced internal control measures

For the purpose of assessing the profitability of each of the projects we handle and monitoring closely its profitability throughout the installation and maintenance process, as well as facilitating us to set a reasonable tender price, we have implemented the following internal control measures in January 2017:

- we have established a labour cost allocation policy which sets out the standard hourly rate for our maintenance teams and installation teams;
- weekly timesheet is prepared by each staff of the maintenance teams and installation teams and reviewed monthly by the team leader and our management so that we can monitor monthly the direct labour cost of a project;
- cost sheet and material request form which include estimated material, subcontracting and labour costs are prepared by the staff and subsequently approved by the Executive Directors for each maintenance job and installation project respectively; and such forms state clearly the contract sum and gross profit margin for each job and project. We estimate the material and subcontracting costs by obtaining quotations from approved suppliers and subcontractors and we estimate the labour cost by referring to the human resources we previously put to comparable projects in terms of scale, complexities, and length of the project; and

BUSINESS

- if cost overrun is identified in a project, the project manager will provide the reasons as well as suggestion on improvement in writing on the cost sheet or material request form, so that our Group can better control the remaining cost on the relevant project, avoid the occurrence of those incidents leading to the cost overrun in other projects, and set appropriate tender price for new projects.

Effectiveness of the enhanced internal control measures

Baker Tilly (*Note*) has performed a review on the above internal control measures in January 2017 in order to assess the adequacy and effectiveness of the above measures.

Baker Tilly performed the followings for the review and assessment:

- i. Obtained financial and operating manuals of the Group's on the existing procedures, systems and controls established by the management or appropriate personnel;
- ii. Obtained an understanding of the existing procedures, systems and controls established by the Group through enquiry with the management and/or appropriate personnel;
- iii. Carried out walkthrough tests on those critical aspects of the key procedures, systems and controls of the Group to confirm their understanding; and
- iv. Carried out system review and compliance tests on those critical aspects of the key procedures, systems and controls of the Group to verify effectiveness of design and implementation of the control mechanism.

Baker Tilly was of the view that our enhanced internal control policy as mentioned above was adequate and effective in all material aspects.

Note: Baker Tilly Hong Kong Risk Assurance Limited is part of Baker Tilly Hong Kong which is an affiliate of Baker Tilly International. Baker Tilly Hong Kong Risk Assurance Limited mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its clients including listed companies and companies preparing for listing in Hong Kong. The key members of the engagement team from Baker Tilly Hong Kong Risk Assurance Limited are qualified accountants and internal auditors.

Based on the above, our Directors are of the view that adequate corporate governance measures are in place for our business operations.