

BUSINESS

OVERVIEW

The Group is principally engaged in the provision of engineering services for building services systems in Hong Kong. The Group undertakes building services engineering works which are mainly related to the supply, installation and maintenance of (i) ventilation and air-conditioning system; (ii) electrical system; (iii) plumbing and drainage system; and (iv) fire services system.

During the Track Record Period, the Group undertook building services engineering projects from the private sector in Hong Kong. Projects from the private sector accounted for all of the total revenue for each of the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015. The Group's revenue is derived from building services engineering projects relating to both existing building and new building. During the Track Record Period, all of the Group's revenue was derived in Hong Kong.

In executing a building services engineering project, subject to the scope of work under the engagement, the Group is generally responsible for the design of the relevant building services systems, planning of the engineering works, arrangement of direct labour and subcontractors, sourcing of materials and equipment, work supervision and quality control, and ensuring compliance with the customers' requirements. In certain projects, the Group also provides complementary fitting-out services.

The allocation of works between in-house team of workers and subcontractors are determined on a case-by-case basis. Based on the Group's internal policies on engaging subcontractors, the Group generally assigns its in-house workers to perform engineering works for air-conditioning system and electrical system, which usually include the installation and configuration of control panels and ancillary systems, while the Group generally assigns subcontractors to perform works such as fire services system, plumbing and drainage system, and fitting-out works, which the Directors considered to be less technical in certain projects. The Group leverages on the expertise of its in-house engineering team to deliver quality work in conformity with customer's expectation and prescribed timeframe.

The Group's client base primarily consists of main contractors who contract all or part of the engineering works for building services systems to other subcontractors, such as the Group, and in some cases, landlords or occasionally property developers or their consultants, who directly engage the Group as main contractor or as nominated subcontractor. The Group's building services engineering projects cover different types of buildings, including residential, commercial (e.g. office, hotel and shopping arcades, etc), industrial and institutional (e.g. hospital and academic institutions).

Revenue from a building services engineering project mainly represents the contract income, while main costs include subcontracting charges incurred by the Group, material and equipment costs, direct labour costs of in-house staff involved and other supplies required for the performance of the works.

The contracts the Group entered into with its customers are categorised into two types, namely (i) building services engineering projects for existing building and new building; and (ii) maintenance, repair and other services ("maintenance projects") which mainly include provision of maintenance and repair services for building services system and replacement of parts. For building services engineering projects, the Group is required to complete the engineering works in relation to the installation/upgrade of building services systems as set out in the scope of work under the contract. For maintenance

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projects, the Group is required to provide maintenance services for existing building services systems of a property and/or portfolio of properties over a fixed contract period. Such maintenance services include regular check and maintenance, and emergency call-out service for emergency repair.

The following table sets out a breakdown of the Group’s revenue during the Track Record Period by building services engineering projects and maintenance projects:

	For the year ended 31 December				For the three-month period ended 31 March				
	2013		2014		2014		2015		
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	
					(Unaudited)				
Building services engineering projects	127,400	87.6	118,360	87.4	21,340	84.6	37,377	86.1	
Maintenance projects	<u>18,105</u>	<u>12.4</u>	<u>17,133</u>	<u>12.6</u>	<u>3,883</u>	<u>15.4</u>	<u>6,020</u>	<u>13.9</u>	
	<u><u>145,505</u></u>	<u><u>100.0</u></u>	<u><u>135,493</u></u>	<u><u>100.0</u></u>	<u><u>25,223</u></u>	<u><u>100.0</u></u>	<u><u>43,397</u></u>	<u><u>100.0</u></u>	

As at the Latest Practicable Date, the Group had 22 building services engineering projects and 28 maintenance projects in progress, with a total estimated outstanding contract sum and work order value of approximately HK\$198.1 million. Further details of the Group’s projects are set out in the sections headed “Business — Projects undertaken during the Track Record Period” and “Business — Projects in progress” in this document.

MARKET AND COMPETITION

The Directors consider that the level of demands for the Group’s engineering services depends on the availability of renovation projects as well as new buildings construction projects in Hong Kong which require engineering services for building services systems. The availability of new buildings construction projects as well as renovation projects in Hong Kong is expected to grow in the coming years as a result of, among others, the Long Term Housing Strategy that the Government adopts a total housing supply target of 480,000 units for the ten-year period from 2015/16 to 2024/25 and the increasing number of office and commercial premises and private residential properties in recent years.

For further information regarding the competitive landscape of the industry in which the Group operates, please refer to the section headed “Industry overview” in this document.

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COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to the Group's continued success and potential for growth:

Established track record

The Group has been providing engineering services for the building services sector in Hong Kong since 1997. During the Group's operating history, the Group has completed over 700 projects for various types of buildings, including but not limited to residential properties, offices, industrial buildings and hospitals. The Group has accumulated vast experience in building service project execution through the projects undertaken over the years. The Directors believe that the Group's track record gives it a good reputation in the building services industry in Hong Kong for capable of delivering quality engineering solutions in a timely manner.

Long-term rapport with some of the Group's major suppliers and subcontractors

The Group has strong business relationships with most of its major subcontractors and suppliers ranging from 1 year to 10 years. The Group maintains a list of approved suppliers and subcontractors and engages these entities in the Group's projects thereby developing a close relationship with these suppliers and subcontractors. The Directors believe a strong relationship with experienced subcontractors is a strength and edge in maintaining the Group's service quality. The Directors believe that the Group can leverage on its existing relationship with subcontractors to further develop new business opportunities while controlling the Group's costs through favourable terms.

Integrated one-stop engineering services for building services systems

The Directors believe that one of its competitive strength lies on its capability to provide turnkey solution to customers in building services engineering.

The Group, with the required licenses, undertakes one-stop building services engineering services, from designing to engineering works, work supervision and post-completion maintenance services, that cover different aspects of building services engineering, including (i) ventilation and air-conditioning system; (ii) electrical system; (iii) fire services system; and (iv) plumbing and drainage system. By engaging the Group, customers are not required to assign multiple parties for the provision of building services engineering services for different aspects of the building services systems, thereby saving the need to coordinate the works of different parties and administrative costs incurred.

In designing and providing the engineering works for the building services systems, the Group's management team has the engineering expertise and experience to consolidate the specifications of different parts of the building services systems, which comply with the relevant rules and regulations while meeting the customer's requirements. The Directors consider that the design and engineering works of the entire building services systems to be carried out by the Group could ensure consistency and quality of the systems, which could add to the overall efficiency and reliability of the systems.

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Subject to separate engagement, the Group has a dedicated team to offer after-sales maintenance services for the building services systems after the end of the defect liability period of the respective project, including regular check and maintenance, and emergency call-out service for emergency repair to ensure the sound condition and functionality of the customer's building services systems.

Expertise and experienced engineering team to deliver the required services

The Group's founder, Mr. Wong, has over 26 years of experience in the industry of building services engineering in Hong Kong. The Group's general manager, Mr. Leung Chi Man, is a chartered engineer who possesses extensive experience in building services engineering and has been serving the Group for over 15 years. Mr. Leung Chi Man holds a master degree in electrical engineering.

The Directors and senior management possess substantial experience, industry insight and project management experiences to facilitate the Group's building service engineering business. This has also allowed the Group to secure numerous tenders over the years as well as provide the Group with accurate cost estimations during the tendering process and thereby reduce situations of cost overrun. For the experience and qualifications of the Directors and senior management, please refer to the section headed "Directors and senior management" of this document.

As at the Latest Practicable Date, the Group's in-house engineering team consists of 85 members, including the general manager, engineering departments for building services engineering projects and maintenance projects, and tendering and procurement department. Out of the 85 members, 15 of them possesses higher diploma or above in related disciplines. By maintaining in-house engineering staff and direct workers, the Group is able to better control the project costs, and satisfy the stringent requirements of certain customers.

Based on the above, the Directors consider that the Group has a strong in-house engineering team which plays a critical role in delivering building services engineering services and gives the Group a competitive edge over its competitors in the industry.

BUSINESS STRATEGIES

The Group's goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the building services engineering business in Hong Kong. To achieve this, the Directors plan to continue to capitalise on opportunities to leverage the Group's competitive strengths and implement the following strategies:

1. Further development of the Group's building services engineering business

In deciding whether to undertake a project, in particular of building services engineering project, the Group would consider, among other things, the amount of available working capital and requirements for projects in progress. There are often time lags, in particular during the early stage of project execution, between making payments to the Group's subcontractors and other suppliers and receiving payments from the Group's customers.

In addition, some building services engineering projects in the construction industry, including the building services segment, require contractors to provide surety bonds issued by a bank or insurance company in favour of the customer with a principal amount generally representing a percentage of the contract sum. In the event that the contractor fails to perform the

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contract according to the terms therein, the customer is guaranteed compensation for any monetary loss up to the principal amount of the surety bond, thereby guaranteeing the due completion of the works to be performed by the contractor in accordance with the terms of the contract. Further details on surety bonds are contained in the section headed "Business — Customers — General terms of engagement with customers — Building services engineering project — Surety bonds".

During the Track Record Period, the Group had undertaken projects that require the provision of surety bonds. As at 31 December 2013 and 2014 and as at 31 March 2015, the amount of surety bonds provided by the Group were approximately HK\$5.4 million, HK\$17.6 million and HK\$8.7 million respectively. The Group intends to use HK\$26 million of the proceeds from the [REDACTED] for the provision of surety bonds.

In further developing the Group's business, the Directors intend to undertake more building services engineering projects of larger scale in terms of contract sum in the future. The Directors believe that the net proceeds from the [REDACTED] will strengthen the Group's available financial resources which allows the Group to undertake more projects of larger scale that are more working capital demanding and include those that require the provision of surety bond.

2. Further expansion of service scope

To strengthen the competitiveness of the Group's services, the Group intends to apply for additional licences, permits or qualifications which may be required.

The Group is currently an Approved Suppliers of Materials and Specialist Contractors for Public Works (Group I) registered with the Works Branch of Development Bureau for public works involving air-conditioning installation. The Directors believe that potential customers can identify the Group from such list maintained by the Government authorities, and thus broaden the Group's business opportunities.

The Group intends to apply to the Works Branch of Development Bureau for the registration of Approved Suppliers of Materials and Specialist Contractors for Public Works (Group II), which can undertake public works involving air-conditioning installation of unlimited contract value, as opposed to that of contract value up to HK\$5.7 million for Group I registration.

The Directors believe that the intended application for the registration of Approved Suppliers of Materials and Specialist Contractors for Public Works (Group II) could enhance the image of the Group to potential customers as to the Group's capability.

3. Further strengthening the Group's engineering department

The Group relies on its in-house engineering team for the execution of its building services engineering projects. The Group intends to expand its in-house engineering team by recruiting additional qualified and experienced staff, including engineers, in order to cope with its business development by undertaking building services engineering projects of larger scale and of higher complexity. The Group intends to use approximately HK\$9.7 million of the proceeds from the [REDACTED] for recruitment of additional qualified and experienced staff for the Group's engineering team.

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In addition, the Group intends to continue encouraging its engineering department staff to attend technical courses, seminars and occupational health and safety courses through sponsorship of admission fees.

SCOPE OF BUSINESS

The Group is principally engaged in the provision of engineering services for building services systems for buildings in Hong Kong. The building services engineering works undertaken by the Group are mainly related to (i) design, supply, installation and maintenance of ventilation and air-conditioning systems; (ii) design, supply, installation and maintenance of electrical systems; (iii) design, supply and installation of fire services systems; and (iv) design, supply, installation and maintenance of plumbing and drainage systems. The Group is also engaged in the provision of fitting out works for buildings in Hong Kong.

Categories of building services systems covered by the Group's engineering services

Mechanical ventilation and air-conditioning systems

The Group takes part in the supply, installation and maintenance of MVAC systems. The main function of a ventilation system is to regulate the inflow and outflow of air within the building, supply air is treated and channelled into the building, while exhaust air is extracted. On the other hand, an air-conditioning system controls the temperature and humidity of air within the building and in some other cases provides a conditioned and controlled space for the storage of goods and/or equipment. A ventilation and air-conditioning system of a building generally comprises of chiller, ventilation fan, air handling unit.

Electrical systems

The Group takes part in the supply and installation of electrical systems. The electrical systems provide for the power supply to ensure the functioning of various systems in a building, including but not limited to, lighting, MVAC systems and fire services systems. The Group designs a electrical distribution network to enable power supply in support of the electrical systems supplied and installed by the Group. An electrical system of a building includes electrical distribution network geothermal system and switch gears.

Fire services systems

The Group takes part in the supply and installation of fire services systems. The fire services systems of a building offer protection to the property and its occupants. Fire services systems consist of the following subsystems: (i) fire detection and alarming system; (ii) fire suppression and extinguishing system; and emergency lightings. A fire detection and alarming system generally comprises a programed control panel which will notify the fire services control center of Fire Services Department upon activation of smoke and heat detection components, and will activate fire alarm, fire shutters, ventilation and air-conditioning system isolation, etc. A fire suppression and extinguishing system generally further comprises of sprinkler system, fire hydrant and hosereel system and portable fire services appliance, which helps suppress the spread of fire. Emergency lightings facilitate the escaping of occupants from the building to safe location.

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Plumbing and drainage systems

The Group takes part in the supply and installation of plumbing and drainage systems. The plumbing and drainage systems of a building provide clean and stable water supply for occupants, including fresh water for drinking, cooking and washing purposes and seawater/fresh water for flushing systems, and the functioning of the fire services systems in a building as well as the removal of waste water through the drainage system into the city's sewage system. A typical plumbing and drainage systems of a building comprise pipework, valves, pumps and rainwater drainage.

Fitting out works

In supporting of the Group's building services engineering business and as required by the customers, the Group may serve as a main contractor or subcontractor for alternations, addition, renovation, refurbishment and fitting out works in Hong Kong as complementary services. The main responsibilities of the Group's fitting out works consist of (i) interior decorative and modification, removal or installation of furniture, fixtures and equipment works; (ii) minor works (as defined in the Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong)); and (iii) changes in external façade works.

Building services engineering works delivered by the Group

Design of building services systems

In some building services engineering projects, the Group may be required to provide designs to certain building services systems, mainly MVAC systems. The customer may provide preliminary designs on the building services systems with specific requirements, and the Group will base on such preliminary designs and requirements to provide detailed designs of the systems that can meet the customer's requirements.

In designing the MVAC system, the Group's engineering team will cater for both the functionality and cost efficiency of the system. The engineering team will take into account in its design the floor area of the building, the structural design of the building, building location as well as outdoor and indoor environmental data. The Directors consider that the Group is able to design MVAC system that meets the customer's requirements while lowers energy consumption and reduces energy loss.

In designing the electrical system, the Group's engineering team will consider the power requirement of the electrical units, the structural design of the building, the setting of other building services systems, as well as cater for the safety issue. The Directors consider that the Group is able to design electrical system that meets the customer's requirements while lowers energy consumption and reduces energy loss.

In designing the fire services system, and plumbing and drainage system, the Group's engineering team will consider the structural design of the building and apply suitable equipment and materials in its design. The Directors consider that the Group is able to design such systems that meet the customer's requirements.

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Installation of building services systems

During the installation stage of the building services system, the Group will arrange for direct labour and subcontractors for the execution of the works and source the required equipment and components.

In executing the building services engineering project for building services systems, the Group will ensure that such systems installed and the engineering works carried out for the installation comply with the customers’ requirements. The Group’s engineering team will supervise the site work and ensure compliance with the customers’ requirements.

Completion of project

Upon project completion, a certificate of practical completion is generally issued by the customer, certifying that the building services engineering works have been completed to the satisfaction of the customer and handed-over. Onsite inspection and certification of work are normally performed by the Group’s customers prior to issuance of practical completion certificate. Practical completion normally implies that the works as set out in the relevant contract have been duly completed.

Maintenance, repair and other services

Maintenance, repair and other services mainly include provision of maintenance and repair services for building services system and replacement of parts.

For maintenance, repair and other services, the Group is required to provide maintenance services for existing building services systems of a property/a portfolio of properties over a fixed contract period. Such maintenance services include regular check and maintenance, and emergency call-out service for emergency repair. Maintenance, repair and other services also include replacement of parts of building services systems and minor fitting-out services for properties in Hong Kong.

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The following table sets out a breakdown of the Group's revenue during the Track Record Period by building services engineering projects and maintenance projects:

	For the year ended 31 December				For the three-month period ended 31 March			
	2013		2014		2014		2015	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Building services engineering projects	127,400	87.6	118,360	87.4	21,340	84.6	37,377	86.1
Maintenance projects	<u>18,105</u>	<u>12.4</u>	<u>17,133</u>	<u>12.6</u>	<u>3,883</u>	<u>15.4</u>	<u>6,020</u>	<u>13.9</u>
	<u>145,505</u>	<u>100.0</u>	<u>135,493</u>	<u>100.0</u>	<u>25,223</u>	<u>100.0</u>	<u>43,397</u>	<u>100.0</u>

(Unaudited)

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

The following table sets out the number of projects, with breakdown of building services engineering projects and maintenance projects, with engagement confirmed during the Track Record Period:

	Number of projects with engagement confirmed			
	For the year ended 31 December		For the three-month period ended 31 March	
	2013	2014	2014	2015
Building services engineering projects	35	35	9	4
Maintenance projects	<u>69</u>	<u>66</u>	<u>12</u>	<u>17</u>
	<u>104</u>	<u>101</u>	<u>21</u>	<u>21</u>

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The following table sets out the number of projects, with breakdown of building services engineering projects and maintenance projects, with revenue contribution during the Track Record Period:

	Number of projects with revenue contribution			
	For the year ended		For the three-month period	
	31 December		ended 31 March	
	2013	2014	2014	2015
Building services engineering projects	62	63	28	16
Maintenance projects	<u>120</u>	<u>109</u>	<u>50</u>	<u>45</u>
	<u><u>182</u></u>	<u><u>172</u></u>	<u><u>78</u></u>	<u><u>61</u></u>

The following table sets out the range of contract sum of the 35, 35 and 4 building services engineering projects with engagement confirmed during the year ended 31 December 2013 and 2014 and during the three-month period ended 31 March 2015 respectively.

	Contract sum per project with engagement confirmed			
	for building services engineering projects			
	During the year ended		During the three-month	
	31 December		period ended 31 March	
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Maximum	17,140	52,000	2,355	27,440
Minimum	110	214	260	559
Average	2,329	6,699	1,354	8,521

The following table sets out the range of contract sum of the 69, 66 and 17 maintenance projects with engagement confirmed during the year ended 31 December 2013 and 2014 and during the three-month period ended 31 March 2015 respectively.

	Contract sum per project with engagement confirmed			
	for maintenance projects			
	During the year ended		During the three-month	
	31 December		period ended 31 March	
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Maximum	2,508	925	196	982
Minimum	1	1	17	1
Average	149	133	74	229

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The average contract sum per project with engagement confirmed for building services engineering project was approximately HK\$2.3 million, HK\$6.7 million and HK\$8.5 million for the year ended 31 December 2013 and 31 December 2014 and for the three-month period ended 31 March 2015 respectively. During the Track Record Period, contract sum of maintenance projects were generally below HK\$1 million.

The following table sets out the range of revenue recognised of the 62, 63 and 16 building services engineering projects with revenue contribution during the year ended 31 December 2013 and 2014 and during the three month period ended 31 March 2015 respectively.

Revenue recognised during the year/period per building services engineering project with revenue contribution

	During the year ended 31 December		During the three-month period ended 31 March	
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Maximum	23,444	21,492	3,558	12,908
Minimum	1	1	3	1
Average	2,055	1,879	762	2,336

The following table sets out the range of revenue recognised of the 120, 109 and 45 maintenance projects with revenue contribution during the year ended 31 December 2013 and 2014 and during the three month period ended 31 March 2015 respectively.

Revenue recognised during the year/period per maintenance project with revenue contribution

	During the year ended 31 December		During the three-month period ended 31 March	
	2013	2014	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Maximum	1,538	2,166	796	1,046
Minimum	1	1	1	1
Average	151	157	78	134

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Set out below is the breakdown of projects with engagement confirmed during the Track Record Period by range of contract sum:

	Number of projects with engagement confirmed			
	For the year ended		For the three-month period	
	31 December		ended 31 March	
	2013	2014	2014	2015
HK\$10 million or above	3	5	—	1
HK\$5 million to below				
HK\$10 million	1	2	—	1
HK\$1 million to below				
HK\$5 million	16	16	6	—
Below HK\$1 million	<u>84</u>	<u>78</u>	<u>15</u>	<u>19</u>
	<u><u>104</u></u>	<u><u>101</u></u>	<u><u>21</u></u>	<u><u>21</u></u>

The following table sets out the top five projects with the highest revenue contribution to the Group for the year ended 31 December 2013:

Rank	Customer	Key scope of work	Amount of revenue recognised for the year ended 31 December 2013 <i>HK\$ million</i>	% of the Group's total revenue for the year ended 31 December 2013
1	Customer A	Engineering service for the MVAC system of commercial buildings	23.4	16.1%
2	Customer B <i>(Note)</i>	Renovation involving engineering services for building services systems and fitting-out works for a wing building of a private hospital	13.1	9.0%
3	Customer C	Engineering services for the plumbing and drainage system of a hotel	11.7	8.0%
4	Customer D	Engineering service for the MVAC system of commercial and residential buildings	9.2	6.3%

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Rank	Customer	Key scope of work	Amount of revenue recognised for the year ended 31 December 2013 <i>HK\$ million</i>	% of the Group's total revenue for the year ended 31 December 2013
5	Customer E <i>(Note)</i>	Renovation involving engineering services for building services systems and fitting-out works for a wing building of a private hospital	7.8	5.4%

The following table sets out the top five projects with the highest revenue contribution to the Group for the year ended 31 December 2014:

Rank	Customer	Key scope of work	Amount of revenue recognised for the year ended 31 December 2014 <i>HK\$ million</i>	% of the Group's total revenue for the year ended 31 December 2014
1	Customer F <i>(Note)</i>	Renovation involving engineering services for building services systems and fitting-out works for a wing building of a private hospital	21.5	15.9%
2	Customer G	Engineering services for the electrical system of a residential development	15.9	11.7%
3	Customer B <i>(Note)</i>	Renovation involving engineering services for building services systems and fitting-out works for a wing building of a private hospital	10.0	7.4%
4	Tenants of a commercial building	Engineering service for the MVAC system for tenants in a commercial building	8.8	6.5%

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Rank	Customer	Key scope of work	Amount of revenue recognised for the year ended 31 December 2014 <i>HK\$ million</i>	% of the Group's total revenue for the year ended 31 December 2014
5	Customer E <i>(Note)</i>	Renovation involving engineering services for building services systems and fitting-out works for a wing building of a private hospital	7.7	5.7%

The following table sets out the top five projects with the highest revenue contribution to the Group for the three-month period ended 31 March 2015:

Rank	Customer	Key scope of work	Amount of revenue recognised for the three-month period ended 31 March 2015 <i>HK\$ million</i>	% of the Group's total revenue for the three-month period ended 31 March 2015
1	Customer G	Engineering services for the electrical system of a residential development	12.9	29.7%
2	Customer H	Engineering service for the MVAC system of a industrial building	12.7	29.3%
3	Customer F <i>(Note)</i>	Renovation involving engineering services for building services system and fitting-out works for a wing building of a private hospital	3.6	8.3%
4	Customer I	Engineering services for the plumbing and drainage system of a hotel	2.0	4.6%

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Rank	Customer	Key scope of work	Amount of revenue recognised for the three-month period ended 31 March 2015	% of the Group's total revenue for the three-month period ended 31 March 2015
			<i>HK\$ million</i>	
5	Tenants of a commercial building	Engineering services for the MVAC system for tenants in a commercial building	1.7	3.9%

Note: These projects are all related to the private hospital in Hong Kong of Customer B, being the hospital operator.

PROJECT IN PROGRESS

As at the Latest Practicable Date, the Group had 22 building services engineering projects and 28 maintenance projects in progress (including projects with contract sum confirmed but not completed). The following table sets out a breakdown of such projects in progress by business segment:

	Number of projects in progress	Contract sum per project		Aggregated contract sum of all projects in progress (including amounts recognised and expected to be recognised as revenue)	Corresponding amount of revenue expected to be recognised after the Latest Practicable Date (<i>Note</i>)
		Maximum <i>HK\$'000</i>	Minimum <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Building services					
engineering projects	22	55,351	498	301,261	192,941
Maintenance projects	28	1,147	6	9,803	5,203
Total	50			311,064	198,144

Note: Amount of revenue expected to be recognised for each project in progress is calculated by subtracting the amount of revenue recognised from the project as at the Latest Practicable Date from the contract sum.

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The following table sets out a breakdown of such projects in progress by range of expected completion date:

	Number of projects in progress	
	Building services engineering projects	Maintenance projects
Expected to be completed:		
— from the Latest Practicable Date to 31 December 2015	[REDACTED]	[REDACTED]
— from 1 January 2016 to 31 December 2016	[REDACTED]	[REDACTED]
— from 1 January 2017 to 31 December 2017	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>

The following table sets out a breakdown of amount of revenue to be recognised from such projects in progress by the expected time of revenue recognition:

	Building services engineering projects	Maintenance projects
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount of revenue expected to be recognised:		
— from the Latest Practicable Date to 31 December 2015	[REDACTED]	[REDACTED]
— from 1 January 2016 to 31 December 2016	[REDACTED]	[REDACTED]
— from 1 January 2017 to 31 December 2017	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Recent contracts awarded

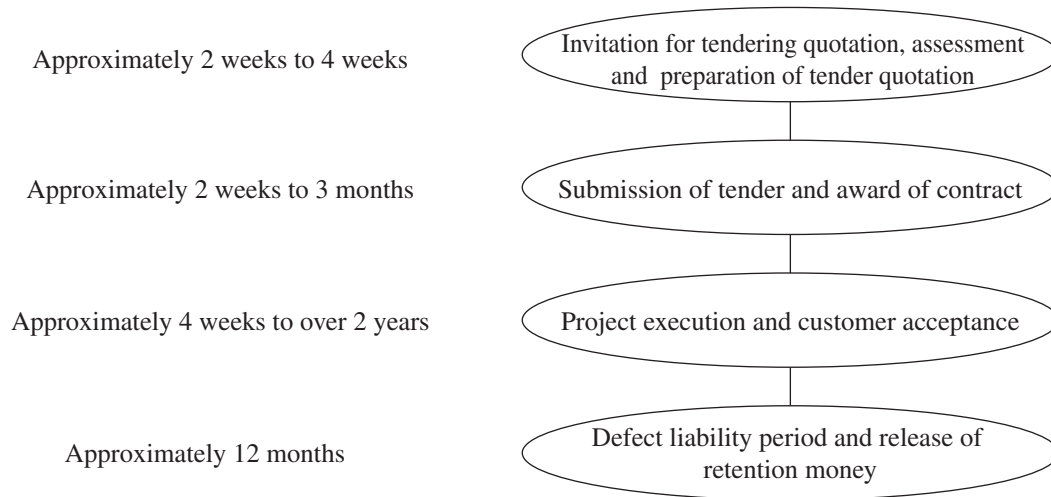
Subsequent to 31 March 2015 and up to the Latest Practicable Date, the Group has been awarded with three new contracts of building services engineering projects with an aggregate contract sum of approximately HK\$23.4 million, of which one new contract is of contract sum of HK\$5 million or less and two new contracts are of contract sum over HK\$5 million each. Such contracts awarded mainly relate to building services engineering works for a hotel, a private hospital and a shop. In addition, the Group has been awarded four new contracts of maintenance projects.

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OPERATING PROCEDURES

Building services engineering project

The following diagram summarises the principal steps of the workflow in a typical transaction in respect of the Group's building services engineering project:



The project duration is mainly determined by, apart from the time taken for submission of tender and award of contract, (i) the time specified by the customer which is in turn based on the size, complexity and technical features of the project; and (ii) the result of certification of work done and subsequent modifications required to obtain certification for payment.

Invitation for tendering/quotation

The Group is mainly invited by its customer to submit a tender, or is sometimes invited to provide a quotation, for a potential project. The Group is provided with the tender documents which contain the work specifications along with the invitation. For further details, please refer to the paragraph headed "Sales and marketing" in this section to this document.

Assessment and preparation of tender/quotation

Tendering and procurement department, usually a team of three engineers (including the tender manager), is responsible for the assessment on tender documents provided by potential customers and preparation of tender submission documents.

The Group's general manager, Mr. Leung Chi Man, and the tender manager weigh the profitability of the project, against the reasonableness of the proposed schedule and availability of the Group's resources to undertake such project. The management also take into consideration the contract size and potential subcontractor engagements.

Tendering and procurement department is responsible for preparing the tender submission documents, including but not limited to, the tender price with schedule of rates by consolidating the assessments and estimations of costs and materials derived by the tendering and procurement department in accordance with the requirements of the customer.

BUSINESS

The management will then decide, based on the assessment made by tendering and procurement department as well as the aforesaid factors considered, whether to make the tender submission.

The time allowed by the potential customer to prepare the tender responses is specified in the tender documents and varies from case to case. Generally, it takes about 2 weeks to 4 weeks from receipt of tender documents to submission of the tender response.

Submission of tender and award of contract

Based on the tender submitted by the Group, the customer may clarify the particulars of the tender or further negotiate with the Group on the commercial and technical terms.

The customers then generally enter into a formal engagement with the Group should the customer decide to award the contract to the Group. Such formal engagement may be in the form of letter of award/letter of intent which requires countersigning by the Group, or a contract entered into between the Group and the customer. The tender submitted by the Group, including the tender documents and post-tender correspondence (e.g. submission of work schedule, execution plan and resources deployment schedule), forms part of the contract entered into between the Group and the customer.

Project execution and customer acceptance

Once a contract is awarded, a project manager will be assigned for the project who will form a project team. The project manager will be responsible for the overall management of the project and the project team will be responsible for the project execution, which includes the assignment of direct labour, arrangement of subcontractors and sourcing of materials, which shall be carried out in accordance with the work plan and the programme as contained in the tender document. The project team is also responsible for ensuring the engineering works carried out comply with the customers' requirements.

The project team will prepare a budget plan, also known as cost sheet, for the project. Information on all actual costs incurred will be recorded in the Group's accounting system, and a variance analysis between the actual costs and the budget will be conducted and reviewed by the project manager on a monthly basis.

In executing a build-only project, the Group is required to supply and install the building services systems according to the designs and work plans as set out in the tender document. The Group may review the designs and work plans and offer advices to the customer as to the feasibility of the designs and for improving the design. In executing a design-and-build project, the Group is required to design the building services systems based on the requirements of the customers as set out in the tender documents, and supply and install such building services systems based on the designs of the Group.

In some building services engineering projects, the Group may be required to provide designs to certain building services systems, mainly MVAC systems. The customer may provide preliminary designs on the building services systems with specific requirements, and the Group will base on such preliminary designs and requirements to provide detailed designs of the systems that can meet the customer's requirements.

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The Group generally assigns its in-house workers to perform engineering works for air-conditioning system and electrical system, which usually include the installation and setting of control panels and ancillary systems, while the Group generally engages subcontractors to perform engineering works for fire services system, plumbing and drainage system and fitting out work that are part of the scope of works in certain projects, which the Directors consider such works require relatively less engineering know-how and expertise. Other ancillary works for a project such as the setting up of scaffold and loading works by crane are subcontracted to subcontractors.

The Group may enter into subcontracting agreement or place a job order with the subcontractors appointed governing the subcontracting arrangements. The Group maintains an approved list of subcontractors, for each categories of building services engineering, which is reviewed and updated from time to time. As at the Latest Practicable Date, the Group maintained a list of over 400 subcontractors. Further details on the use of subcontractors are set out in the section headed "Suppliers" in this section to this document.

The Group sources most of the equipment and components that are required in large quantity. All materials sourced will be stored at the work site. Quantity of materials to be stored at the site will be determined by the Group based on the work schedule and the storage area available to avoid disruption to site work.

Certain components, such as tiny metal and spare parts, are usually provided by the subcontractors directly without the involvement of the Group, the costs of which are included in the subcontracting charges. To ensure the quality of the materials sourced by both itself and the subcontractors, the Group's engineers are responsible for conducting quality control on materials used in its projects.

During the course of the execution of the site work, the project manager will carry out site inspection to monitor the work progress and review the quality of work on a regular basis to ensure the works performed are in conformity with the requirements as set out in the relevant contract. The project team will assign dedicated in-house staff to supervise the Group in-house workers and subcontractors who will report the project progress to the project team on an ongoing basis. The Group will make sure that the engineering services and the site works are carried out in compliance with the customers' requirements. Progress meetings will be held regularly between the Directors, senior management and the project team to discuss the project progress and issues of the project.

In general, customers of the Group have dedicated personnel to supervise the execution of site work and monitor the project progress. The project team of each of the Group and the customers will hold meeting from time to time to the follow up the progress of and issues the project.

The Group is generally required to submit working drawings to the customer in relation to the building services system units installed. The project team will also provide testing to the systems installed to ensure that the systems function properly and meet the customer's requirements.

Upon project completion, a certificate of practical completion is generally issued by the customer, certifying that the building services engineering works have been completed to the satisfaction of the customer. In certain projects, parties agree on practical completion by way of exchanging correspondence. Practical completion normally implies that the works as set out in the relevant contract have been duly completed.

BUSINESS

Based on the amount of work completed, the Group makes interim payment application to the customer which sets out the amount of work done and the corresponding value of such work done, which is normally on a monthly basis. Upon receiving the interim payment application, the customer will appoint an authorised person to or the customer's consultant (as the case may be) will examine the portion of work completed and would issue a payment certificate after the examination which normally takes around one to two weeks from the date of interim payment application. The Group will then proceed to billing the customer with the payment certificate received. Customers of the Group generally retain up to 10% of each interim payment as retention money, which is generally capped at 5% of the total contract sum, in accordance with the terms of the contract.

Defect liability period and release of retention money

Depending on the terms of the contract, a defect liability period which is generally 12 months from the date of the practical completion certificate is generally provided by the Group. During the defect liability period, the Group is responsible for, at its own expense, rectifying any defects in the building services systems supplied and installed by the Group as well as defective works provided by the Group. At the end of the defect liability period, a certificate of completion of making good defects is generally issued to officially release the duty of the Group in relation to such project.

Retention monies withheld by customers are generally released at the end of the defect liability period. In some cases, full amount of the retention monies are released at the end of the defect liability period.

Maintenance project

The Group is mainly invited by its customer to submit a tender, or is sometimes invited to provide a quotation, for a potential maintenance project. For further details, please refer to the paragraph headed "Sales and marketing" in this section to this document. The tendering/quotation process for maintenance project is similar to that of building services engineering project. The Group's maintenance team together with the tender manager are responsible for assessing the commercial aspect and estimating the human resources and materials required.

The time allowed by the potential customer to prepare the tender responses is specified in the tender documents and varies from case to case. Following any post-tender interviews and enquiries, the customer then enters into a formal contract with the Group. The tender submitted by the Group, including any tender addenda, forms part of the contract entered into between the Group and the customer.

Once a contract is awarded, an engineer from the maintenance team will be assigned as the person-in-charge for the project who will be assisted by other technical staff of the maintenance team. The engineer will be responsible for the overall management of the project. Over a fixed contract period, the Group will provide engineering services for the maintenance of existing building services systems of a property/a portfolio of properties pursuant to the terms of the contract. Such maintenance services include regular check and maintenance, and emergency call-out service for emergency repair. The engineer will assign in-house workers to carry out the engineering works.

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The Group generally bills the customer pursuant to the terms of the contract, normally on a monthly basis.

LICENSES AND PERMITS

As at the Latest Practicable Date, the Group has the following registrations and licenses that are material to the business operations of the Group in Hong Kong:

Registration/licenses	Governing authority	Registrant/holder	Date of first registration/grant	Expiry date of current licenses/registration
Registered Electrical Contractor	EMSD	Lap Kei	23 February 1998	22 February 2016
		Wealth E & M	22 May 2009	21 May 2018
Registered Specialist Contractor (Ventilation Works)	Building Authority	Lap Kei	6 June 2002	22 July 2017
Registered Fire Service Installation Contractor — Classes 1 & 2	Fire Services Department	Lap Kei	28 August 2001	— (Note 1)
Approved Suppliers of Materials & Specialist Contractors for Public Works — Group I — Air-conditioning installation	Works Branch, Development Bureau	Lap Kei	15 August 2006	— (Notes 1 & 2)
Registered Minor Works Contractor (Classes I, II and III) (Note 3)	Buildings Department	Lap Kei	11 April 2012	11 April 2018

Notes:

- (1) The relevant registration/qualification is not subject to any periodic renewal.
- (2) Lap Kei is subject to certain criteria for retention of the qualification. Please refer to the section headed “Regulatory overview” in this document for the retention requirement.
- (3) Save for Type A (Alteration and addition works) minor works which Lap Kei is registered under Classes II and III only, Lap Kei is registered under Classes I, II and III for carrying out all other types of minor works, including Type B (Repair works) minor works, Type C (Works relating to signboards) minor works, Type D (Drainage works) minor works, Type E (Works relating to structures for amenities) minor works, Type F (Finishes works) minor works and Type G (Demolition works) minor works.

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In order for Lap Kei to apply for and maintain the registrations as a Registered Specialist Contractor (Ventilation Works) and Registered Minor Works Contractor (Classes I, II and III), Lap Kei must have at least one “authorised signatory” to act for it for the purpose of the Buildings Ordinance and one “technical director” to carry out certain duties including, among others, providing technical support for the execution of works and ensuring that the works are carried out in accordance with the Buildings Ordinance. The Building Authority imposes certain requirements on the qualifications and experience of such authorised signatory and technical director. As for Registered Fire Service Installation Contractor — Class 1 & 2, Lap Kei must have at least a director, partner or employee who meet requirements on, among others, the qualifications specified in the Fire Service (Installation Contractors) Regulations. Further information in this connection is disclosed in the section headed “Regulatory overview — Contractor licensing and registration regime” in this document.

For Lap Kei, as at the Latest Practicable Date, the roles of authorised signatory for Registered Specialist Contractor (Ventilation Works) is taken up by Mr. Leung Chi Man, and the roles of authorised signatory for Registered Minor Works Contractor (Classes I, II and III) are taken up by Mr. Wong and Mr. Leung Chi Man.

The Directors, having considered the below factors, consider that the Group is not overly reliant on the staff currently assuming the roles of authorised signatory for its registrations:

- (i) as at the Latest Practicable Date, the Group has, in addition to Mr. Leung Chi Man, Mr. Lee Man Kei, being a member of the Group’s senior management, meets the relevant requirements imposed by the Building Authority and is eligible to become authorised signatory and technical director of Lap Kei for the Registered Specialist Contractor (Ventilation Works). The Group intends to submit applications to the Buildings Department for Mr. Lee Man Kei to take up the roles of authorised signatory and technical director of Lap Kei for the Registered Specialist Contractor (Ventilation Works) before listing; and
- (ii) the Group may hire a replacement for the existing authorised signatory as there are candidates in the job market whose experience and qualifications are fit for the position of authorised signatory.

To ensure that the Group is able to timely obtain and maintain all necessary registrations/licenses for its operations in Hong Kong, Mr. Wong, an executive Director, is responsible for keeping track of the validity periods of the registrations/licenses maintained and/or held by the Group and arranging renewal when necessary in a timely manner. The Group has successfully renewed its aforementioned registrations/licenses since its first registration as set out in the table above. The legal advisers to the Company as to Hong Kong law advised that they does not foresee any material legal impediment in the renewal of the aforesaid registrations/licences.

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CUSTOMERS

Characteristics of the Group's customers

The Group's customers mainly include main contractors who contract all or part of the engineering works for building services systems to other subcontractors, such as the Group, and landlords, or occasionally property developers (or its consultants). The Directors believe that customers may choose to engage the Group for its capability to provide one-stop integrated services from project planning, resources allocation, subcontractor management and material procurement to monitoring and quality assurance.

During the Track Record Period, the Group solely served customers from the private sector in Hong Kong. Customers from the private sector accounted for all of the total revenue for each of the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015.

Top customers

For each of the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015, the percentage of the total revenue attributable to the largest customer amounted to approximately 16.1%, 15.9% and 29.7% respectively, while the percentage of the total revenue attributable to the five largest customers combined amounted to approximately 51.0%, 47.1% and 75.0% respectively.

Set out below is a breakdown of the Group's revenue by major customers:

For the year ended 31 December 2013:

Rank	Customer	Revenue <i>HK\$'000</i>	As % of total revenue %
1	Customer A	23,444	16.1
2	Customer B	20,513	14.1
3	Customer C	11,693	8.0
4	Customer D	10,848	7.5
5	Customer E (<i>Note</i>)	7,755	5.3
	Five largest customers combined	74,253	51.0
	All other customers	71,252	49.0
	Total revenue	145,505	100.0

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For the year ended 31 December 2014:

Rank	Customer	Revenue <i>HK\$'000</i>	As % of total revenue %
1	Customer F (<i>Note</i>)	21,492	15.9
2	Customer G	15,985	11.8
3	Customer B	11,318	8.4
4	Customer E (<i>Note</i>)	7,669	5.7
5	Customer H	<u>7,179</u>	<u>5.3</u>
	Five largest customers combined	63,643	47.1
	All other customers	<u>71,850</u>	<u>52.9</u>
	Total revenue	<u><u>135,493</u></u>	<u><u>100.0</u></u>

For the three-month period ended 31 March 2015:

Rank	Customer	Revenue <i>HK\$'000</i>	As % of total revenue %
1	Customer G	12,908	29.7
2	Customer H	12,661	29.2
3	Customer F (<i>Note</i>)	3,610	8.3
4	Customer I	2,016	4.6
5	Customer J	<u>1,379</u>	<u>3.2</u>
	Five largest customers combined	32,574	75.0
	All other customers	<u>10,823</u>	<u>25.0</u>
	Total revenue	<u><u>43,397</u></u>	<u><u>100.0</u></u>

Note: Certain contracts with Customer E and Customer F are related to the private hospital in Hong Kong of Customer B, being the hospital operator.

None of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest customers of the Group during the Track Record Period.

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During the Track Record Period, to the best knowledge and belief of the Directors, one of the Group’s customers (“**Customer K**”) was also one of its subcontractors during the Track Record Period. Particular financial details of the business relationship during the Track Record Period with this customer are as follows:

	For the year ended		For the three-
	31 December		month period
	2013	2014	ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	31 March
			2015
			<i>HK\$'000</i>
As customer			
Revenue during the relevant year/period	5,059	1,776	864
Gross profit	1,404	847	218
Gross profit margin	27.8%	47.7%	25.2%
As subcontractor			
Subcontracting charges during the relevant year/period	4,691	661	—

To the best of the Directors’ knowledge and belief, Customer K is an Independent Third Party and is focused on alteration and addition works in Hong Kong. During the Track Record Period, Customer K, as main contractor, mainly subcontracted engineering works for MVAC systems to the Group. During the Track Record Period, in one of the Group’s building services engineering project, the Group, as main contractor, subcontracted fitting-out works to Customer K. Customer K has not been both the customer and supplier of the Group in the same project.

The Group engaged Customer K to perform fitting-out works after considering the Customer K’s expertise in such area and availability of the Group’s labour resources. On the other hand, the Directors considered that Customer K engaged the Group to perform engineering work for MVAC systems due to various factors, including the Group’s possession of certain licenses and registrations, technical knowhow, and experiences in handling projects of similar nature and scale.

The Directors confirmed that the terms of the specific subcontracting arrangement were negotiated on an arm’s length basis and the Group did not have any material disputes with Customer K in the transactions during the Track Record Period.

Customers concentration

To the best knowledge and belief of the Directors, none of the Group’s five largest customers of the Group during the Track Record Period is also a supplier of the Group.

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The Group's top five customers accounted for approximately 51.0%, 47.1% and 75.0% of its total revenue for the two years ended 31 December 2013 and 2014 and for the three-month period ended 31 March 2015 respectively. Despite the aforesaid figures exhibit during the Track Record Period exhibit the Group's certain degree of customer concentration, the Directors consider that the Group is not reliant on any single customer because:

- (i) Among the top five customers, only 2 out of 5 and 3 out of 5 such customers were the Group's top five customers for both of the two years ended 31 December 2014 or both the year ended 31 December 2014 and the three-month period ended 31 March 2015, respectively. Also, the Group has had business relationship with most of such top customers one year to over 10 years which the Directors believe implying that the Group is one of the selected subcontractors on such customers' approved lists of subcontractors and the Group being invited to tender or quote from time to time; and
- (ii) During the second half of 2014 and the first quarter of 2015, the new projects confirmed with customers other than the top five customers of the Group during the Track Record Period with an aggregate contract sum of over HK\$120 million, representing that a considerable portion of the Group's income source is derived from non-top five customers of the Group.

The table below sets forth the background information of the Group's top customers mentioned in the above table:

Customer	Services provided by the Group	Principal business	Location	Years of business relationship
Customer A	Provision of engineering services for MVAC system	Main contractor	Hong Kong	Over 2 years
Customer B	Provision of engineering services for building services system and fitting-out work	Operator of a private hospital	Hong Kong	Over 6 years
Customer C	Provision of engineering services for the plumbing and drainage system	Main contractor	Hong Kong	Over 1 year
Customer D	Provision of engineering services for MVAC system	Main contractor	Hong Kong	Over 3 years
Customer E	Provision of engineering services for building services system and fitting-out works	Main contractor	Hong Kong	Over 2 years
Customer F	Provision of engineering services for electricity system and fitting-out works	Main contractor	Hong Kong	Over 2 years
Customer G	Provision of engineering services for building services system	Property investment	Hong Kong	Over 1 year

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Customer	Services provided by the Group	Principal business	Location	Years of business relationship
Customer H	Provision of engineering services for MVAC system	Main contractor	Hong Kong	Over 4 years
Customer I	Provision of engineering services for the plumbing and drainage system	Operator of a hotel	Hong Kong	Less than 1 year
Customer J	Provision of engineering services for MVAC system	Supplier of electricity	Hong Kong	Over 10 years

Certain contracts with Customer E and Customer F during the Track Record Period are related to the private hospital in Hong Kong of Customer B, being the hospital operator. For the two years ended 31 December 2013 and 2014 and for the three-month period ended 31 March 2015, the revenue derived from building services engineering projects in relation to private hospital of Customer B amounted to approximately HK\$27.9 million, HK\$39.7 million and HK\$3.6 million, representing approximately 19.2%, 29.2% and 8.3% of the total revenue for the respective year/period.

Pricing strategies

Pricing for either building services engineering project or maintenance project is determined on a case-by-case basis taking into account various factors as discussed below:

For the pricing of a building services engineering project, factors considered include (i) the complexity of site works involved; (ii) the specifications of the project; (iii) the Group's capacity; (iv) the estimated project cost (which mainly includes the direct labour cost, subcontracting charges and material costs based on the preliminary quotations from the Group's suppliers and subcontractors); (v) historical fee we received for similar projects; and (vi) the current fee level in the market and competitive conditions at the contract negotiation stage.

For the pricing of a maintenance project, factors consider include (i) the Group's capacity; (ii) historical fee we received for similar projects; and (iii) the current fee level in the market and competitive conditions at the contract negotiation stage.

Building services engineering projects are in general labour intensive, and labour cost is one of the major components of the project costs. Most of the pricing of the Group's building services engineering services were fixed as set out in the terms of the contract. Any material deviation in the actual time and resources spent from initial estimation may result in significant cost overruns which may in turn adversely affect the financial results of the Group.

The Group has the following measures to manage the risk of cost overruns:

- (i) A detailed estimate of time and costs expected to be incurred in a project is prepared by the engineers of the Group and being reviewed by the management before submitting a quotation to customer;

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- (ii) A fixed scope of work is to be agreed with customers, based on which the Group's fee quotation is prepared. Customers' requests for variation in the scope of work are to be accepted on the basis that a variation order is agreed upon. The Group's engineers will prepare budgets with expected time and costs on the requests for material variation orders and obtain the approvals from the Group's project managers; and
- (iii) The procurement and tendering department will obtain preliminary quotations from potential subcontractors and suppliers in respect of the engineering design in order to ascertain the costs expected to be incurred, thereby forming the basis for the fee quotation to the Group's customers.

General terms of engagement with customers

The following paragraphs set forth the general terms of engagement with customers in respect of each of the building services engineering project and maintenance project.

Building services engineering project

(i) Nature and scope of work

The nature of work specifies the building services systems covered, the types of engineering works to be carried out and the scope of work specifies the areas/facilities that require such engineering works. The working procedures set out a list of works to be performed on each of the subject areas/facilities in details.

(ii) Duration of work

The duration of work sets out the time allowed to carry out the site work and the tentative date for possession, also known as the date on which the site with all site works completed is handed back by the Group to the customer, may also be stated.

(iii) Payment terms

The total contract sum awarded is clearly stated which is generally a fixed amount. Based on the amount of work completed, the Group makes progress payment application to the customer which sets out the amount of work done and the corresponding value of such work done, which is normally on a monthly basis. The application is subject to examination by the customer's authorised person or its consultant and the issuing of a certification based on such examination approving the amount of works eligible for payment under the application. The examination for each application generally takes around 1 week to 2 weeks. The Group then proceeds to bill the customer with the supporting of the certificate. Settlement of payment is usually made by cheque or bank Transfer.

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Some engagements of building services engineering projects during the Track Record Period also contained the following terms:

(iv) Retention monies

A certain percentage of each fee payment made to the Group, usually at the rate of 10%, may be withheld by some customers as retention money and will be released at the end of the defect liability period. As at 31 December 2013 and 2014 and as at 31 March 2015, retention monies receivable were approximately HK\$11.5 million, HK\$9.2 million and HK\$10.8 million respectively.

(v) Defect liability period

A defect liability period is generally 12 months from the date of the practical completion certificate. During the defect liability period, the Group is responsible for, at its own expense, rectifying any defects in the building services systems supplied and installed by the Group as well as defective works provided by the Group.

(vi) Surety bonds

The Group may be required to provide a surety bond issued by a bank or insurance company in favour of them. During the Track Record Period, the required amounts of surety bonds are generally 10% of the respective contract sum. The amount is usually released back to the contractor after project completion. The Group confirmed that no bond call action was taken by its customers during the Track Record Period.

As at 31 December 2013 and 2014 and as at 31 March 2015, the amount of surety bonds provided by the Group were approximately HK\$5.4 million, HK\$17.6 million and HK\$8.7 million respectively.

(vii) Liquidated damage

Some of the contracts include a liquidated damage clause that in the event the Group fails to complete the work set out in the contracts within the allowed timeframe while not approved for any extension of time and/or cause unnecessary delay to project completion that result in liquidated damages imposed on the customer, as main contractor, by the employers of the project, the Group shall compensate the customer for some or all of the incurred liquidated damages, based on the rate as set out in the contract. The Directors confirmed that there was no material liquidated damage paid by the Group during the Track Record Period.

Maintenance project

(i) Scope of work

The scope of work specifies the types of maintenance services required and the building services systems covered by such services.

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(ii) Duration of work

The duration of work sets out the contract period during which the maintenance services shall be carried out at regular intervals.

(iii) Payment terms

The total contract sum awarded is clearly stated which is generally a fixed amount. The Group is generally entitled to bill the customer in accordance with specific timeframe which is generally on a monthly basis, and the customer generally settles the payment, either by cheque or bank transfer.

Credit policy

In general, the Group allows a credit period of 30 days to its customers. Overdue payments (generally meaning trade receivables that remain outstanding for more than 30 days after the date of invoice) are monitored continuously and evaluated on a case-by-case basis with respect to the appropriate follow-up actions to be taken, taking into consideration the customer's normal payment practice and payment history, the Group's relationship with the customer and the then general economic environment. During the Track Record Period, follow-up actions by the Group for recovering long-overdue payments included issue of payment reminders and active communications with the customers.

As at the Latest Practicable Date, all of the Group's customers were located in Hong Kong and all of the Group's sales were denominated in HK dollars.

For the two years ended 31 December 2013 and 2014 and for the three-month period ended 31 March 2015, the average trade receivable turnover days were approximately 52 days, 75 days and 64 days respectively.

Seasonality

The Directors believe that the industry in which the Group operates does not exhibit any significant seasonality.

SUPPLIERS AND SUBCONTRACTORS

Characteristics of the Group's suppliers and subcontractors

During the Track Record Period, suppliers of goods and services which were specific to the business of the Group and were required on a regular basis to enable the Group to continue to carry on its business included:

- (i) subcontractors engaged by the Group to perform the site works;
- (ii) material and equipment suppliers to supply materials and equipment used in the site works;
and
- (iii) suppliers of other miscellaneous goods and services required for its business operations.

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The following table sets forth a breakdown of the Group’s total purchase from its suppliers and subcontractors (before any effect of, net movement of amounts due from (to) customers for contract work) during the Track Record Period by nature:

	For the year ended 31 December				For the three-month period ended 31 March			
	2013		2014		2014		2015	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Subcontracting charges	45,044	52.1	49,167	56.9	6,259	39.8	9,922	43.6
Material and equipment costs	37,889	43.9	33,149	38.4	8,716	55.5	12,021	52.8
Other	3,453	4.0	4,087	4.7	739	4.7	803	3.6
Total	86,386	100.0	86,403	100.0	15,714	100.0	22,746	100.0

Please refer to the section “Financial information — Principal components of results of operations — Cost of sales” in this document for a discussion of the fluctuation in purchases from suppliers and subcontractors during the Track Record Period as shown in the above table as well as relevant sensitivity analyses in this connection.

Top suppliers

For each of the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015, the percentage of the total purchases attributable to the largest supplier amounted to approximately 48.8%, 18.0% and 19.8% respectively, while the percentage of the total purchases attributable to the five largest suppliers combined amounted to approximately 64.9%, 50.7% and 52.3% respectively. Accordingly, the Directors consider that during the Track Record Period, the Group has reduced its reliance on any single supplier since the commencement of the Track Record Period.

Set out below is a breakdown of the Group’s purchases by major suppliers:

For the year ended 31 December 2013:

Rank	Supplier	Purchase HK\$'000	As % of total purchases %
1	Supplier A	18,480	48.8
2	Supplier B	2,391	6.3
3	Supplier C	1,519	4.0
4	Supplier D	1,203	3.2
5	Supplier E	978	2.6
	Five largest suppliers combined	24,571	64.9
	All other suppliers	13,318	35.1
	Total purchases from suppliers	37,889	100.0

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For the year ended 31 December 2014:

Rank	Supplier	Purchase HK\$'000	As % of total purchases %
1	Supplier A	5,979	18.0
2	Supplier B	4,792	14.5
3	Supplier F	3,595	10.8
4	Supplier G	1,251	3.8
5	Supplier H	<u>1,181</u>	<u>3.6</u>
Five largest suppliers combined		16,798	50.7
All other suppliers		<u>16,351</u>	<u>49.3</u>
Total purchases from suppliers		<u><u>33,149</u></u>	<u><u>100.0</u></u>

For the three-month period ended 31 March 2015:

Rank	Supplier	Purchase HK\$'000	As % of total purchases %
1	Supplier B	2,386	19.8
2	Supplier I	1,550	12.9
3	Supplier H	934	7.8
4	Supplier J	740	6.2
5	Supplier K	<u>681</u>	<u>5.6</u>
Five largest suppliers combined		6,291	52.3
All other suppliers		<u>5,730</u>	<u>47.7</u>
Total purchases from suppliers		<u><u>12,021</u></u>	<u><u>100.0</u></u>

None of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of the Group during the Track Record Period.

BUSINESS

The table below sets forth the background information of the Group’s top suppliers mentioned in the above table:

Supplier	Goods provided to the Group	Principal business	Location	Year of business relationship
Supplier A	Provision of materials and equipment for MVAC system	Engineering & Trading	Hong Kong	Over 10 years
Supplier B	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 9 years
Supplier C	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 5 years
Supplier D	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 10 years
Supplier E	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 10 years
Supplier F	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 9 years
Supplier G	Provision of materials for plumbing and drainage system	Provision of water pump system	Hong Kong	Over 8 years
Supplier H	Provision of materials and equipment for MVAC system	Air conditioning refrigeration	Hong Kong	Over 3 years
Supplier I	Provision of materials and equipment for electrical system	Provision of electrical system	Hong Kong	Over 9 years
Supplier J	Provision of materials and equipment for electrical system	Provision of electrical system	Hong Kong	Less than 1 year

BUSINESS

Supplier	Goods provided to the Group	Principal business	Location	Year of business relationship
Supplier K	Provision of materials and equipment for electrical system	Provision of electrical system	Hong Kong	Less than 1 year

Top subcontractors

For each of the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015, the percentage of the total subcontracting charges attributable to the largest subcontractor amounted to approximately 12.8%, 17.5% and 22.5% respectively, while the percentage of the total purchases attributable to the five largest subcontractors combined amounted to approximately 49.6%, 53.8% and 52.4% respectively. Accordingly, the Directors consider that during the Track Record Period, the Group was not dependent on any single subcontractor.

Set out below is a breakdown of the Group's subcontracting charges by major subcontractors:

For the year ended 31 December 2013:

Rank	Subcontractor	Subcontracting charges HK\$'000	As % of total subcontracting charges %
1	Subcontractor A	5,772	12.8
2	Subcontractor B	4,991	11.1
3	Subcontractor C	4,691	10.4
4	Kin Kwan	3,607	8.0
5	Subcontractor D	<u>3,293</u>	<u>7.3</u>
	Five largest subcontractors combined	22,354	49.6
	All other subcontractors	<u>22,690</u>	<u>50.4</u>
	Total subcontracting charges	<u><u>45,044</u></u>	<u><u>100.0</u></u>

BUSINESS

For the year ended 31 December 2014:

Rank	Subcontractor	Subcontracting charges <i>HK\$'000</i>	As % of total subcontracting charges %
1	Subcontractor B	8,624	17.5
2	Subcontractor A	7,682	15.6
3	Kin Kwan	5,399	11.0
4	Subcontractor E	2,435	5.0
5	Subcontractor F	<u>2,331</u>	<u>4.7</u>
Five largest subcontractors combined		26,471	53.8
All other subcontractors		<u>22,696</u>	<u>46.2</u>
Total subcontracting charges		<u><u>49,167</u></u>	<u><u>100.0</u></u>

For the three-month period ended 31 March 2015:

Rank	Subcontractor	Subcontracting charges <i>HK\$'000</i>	As % of total subcontracting charges %
1	Subcontractor A	2,232	22.5
2	Subcontractor G	1,114	11.2
3	Subcontractor B	867	8.7
4	Subcontractor H	511	5.2
5	Subcontractor I	<u>477</u>	<u>4.8</u>
Five largest subcontractors combined		5,201	52.4
All other subcontractors		<u>4,721</u>	<u>47.6</u>
Total subcontracting charges		<u><u>9,922</u></u>	<u><u>100.0</u></u>

Kin Kwan is sole proprietorship owned by Mr. Wong Kang Hong, being the younger brother of Mr. Wong, the executive Director and a Controlling Shareholder. Accordingly, Mr. Wong Kang Hong (and thus Mr. Wong Kang Hong trading as Kin Kwan) is a connected person of the Company under Rule 20.10(2)(a) of the GEM Listing Rules. For details of the transactions between the Group and Kin Kwan during the Track Record Period, please refer to the section headed “Connected transactions — Non-exempt continuing connected transactions” in this document.

Save as disclosed above, none of the Directors, their associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest subcontractors of the Group during the Track Record Period.

BUSINESS

The table below sets forth the background information of the Group’s top subcontractors mentioned in the above table:

Subcontractor	Services provided to the Group	Principal business	Location	Years of business relationship
Subcontractor A <i>(Note)</i>	Installation of plumbing and drainage system	Installation of plumbing and drainage system	Hong Kong	Over 5 years
Subcontractor B	Installation of electrical system	Electrical engineering	Hong Kong	Over 7 years
Subcontractor C	Provision of fitting out services	Provision of interior fitting-out and renovation	Hong Kong	Over 6 years
Kin Kwan	Provision of fitting out services	Provision of interior fitting-out and renovation	Hong Kong	Over 3 years
Subcontractor D	Installation of electrical system	Electrical engineering	Hong Kong	Over 10 years
Subcontractor E	Installation of MVAC system	Installation of MVAC system	Hong Kong	Over 1 year
Subcontractor F	Installation of electrical system	Electrical engineering	Hong Kong	Over 4 years
Subcontractor G	Installation of MVAC system	Installation of MVAC system	Hong Kong	Over 9 years
Subcontractor H	Provision of demolition & recycling services	Provision of demolition & recycling services	Hong Kong	Over 4 years
Subcontractor I	Installation of MVAC system	Installation of MVAC system	Hong Kong	Over 6 years

Note: Subcontractor A comprises two business entities which are owned by the same business waiver.

The Group generally maintains multiple suppliers and subcontractors for products and services to avoid over-reliance on a few suppliers and subcontractors and did not experience any material difficulties in sourcing materials from suppliers or assigning subcontractors during the Track Record Period. The Directors confirmed that the Group did not have any significant disputes with any of its top five suppliers and subcontractors during the Track Record Period.

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During the Track Record Period, most purchases were settled in Hong Kong dollars and most of them were settled by cheques. Most of the Group's purchases are settled on a monthly basis and in arrears. Credit terms offered by the Group's suppliers and subcontractors range from due on presentation of invoice up to a period generally not less than 30 days after delivery of goods or performance of services.

General terms of engagement with suppliers and subcontractors

Material purchase agreements with material suppliers

The Group does not enter into long term agreements with its material suppliers and will only make purchase orders on a project basis.

Subcontracting agreements with subcontractors

The Group does not enter into long term agreements with its subcontractors and will only enter into subcontracting agreement or place a job order with subcontractors on a project basis. The subcontracting agreement generally contains terms including, among others, scope of work, duration of work, contract sum, payment terms, defect liability period and retention monies. Job orders placed by the Group with subcontractors generally set out the schedule of rates, scope of work and payment terms.

Criteria for selecting subcontractors

The Group maintains an internal list of approved subcontractors, for each categories of building services engineering, where the list is updated on a continuous basis. The Group carefully evaluates subcontractors taking into account of their among other things, quality of works, site management and planning of works, time management, financial strength and stability, environmental awareness, and cooperativeness with third parties. While engaging subcontractors, the Group generally selects the most suitable subcontractor from the approved list based on their relevant skillsets and experience, subject to their availability and fee quotations.

Control on subcontractors

The Group sends its own personnel to the work sites to supervise the works performed by its subcontractors, and also to review the subcontractors' works on an on-going basis to ensure that the subcontractors' works conform to the designs. Such supervision and review procedures include, among others:

- issue construction drawings to the subcontractors, and explain to and discuss with the subcontractors on the details of the works before commencement of site works and during regular site meetings to enable them to understand and comply with the customer's requirements;
- perform regular on-site inspection by the project manager and site supervisor to ensure compliance by the subcontractors with the customer's requirements; and
- debrief the subcontractors on a weekly basis and hold weekly meeting by the engineering team to review the work progress.

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In addition, the Group supplies its subcontractors with its safety manual on workplace safety and organises relevant safety training. The in-house engineers on-site explains the Group’s measures to subcontractors before commencement of works and monitor their compliance with such measures on an on-going basis at work sites. For details of such measures, please refer to the section “Business — Occupational health and safety” in this document.

Materials and equipment

The major equipment and components used are air-conditioning units, such as chiller plant and pipe, duct and hose which are mainly sourced from suppliers in Hong Kong, which may in turn source their products from overseas. Depending on the requirements of the project, the Group bulk purchases most of the equipment and components that are required in large quantity, while components, such as pipe and spare parts, are provided by the subcontractors directly without the involvement of the Group.

Storage of sufficient quantity of materials at the site will be determined by the Group based on the work schedule, and all materials sourced will be stored at the work site where the building services engineering works are carried out for direct utilisation.

HEDGING

During the Track Record Period, most of the Group’s transactions were denominated in HK\$ and therefore, the Group does not engage in any hedging activity.

SALES AND MARKETING

During the Track Record Period, all of the Group’s new businesses were obtained through direct invitation for tender and quotation by customers, which is considered by the Directors to be attributable to its track records, relevant experiences and professional reputation in the building services engineering industry in Hong Kong.

The Group maintains relationship with its customers and attracts them to provide the Group with new businesses mainly by ensuring the quality of its services, maintaining its professional image and reputation in the industry, and actively maintaining rapport with existing and potential customers from time to time.

During the Track Record Period, the success rates of attaining engagement for projects tendered and quoted were as follows:

	For the year ended		For the three-
	31 December	2014	month period
	2013		ended
			31 March
			2015
Success rate (<i>Note</i>)	8.9%	6.9%	5.7%

Note: Success rate is calculated as to the number of tender submission/quotation with engagement confirmed during the year/period divided by the number of tender submission/quotation to customers during the respective year/period.

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The management of the Group generally considers the factors set out in the internal policy, such as the profitability, the proposed schedule and availability of resources to undertake such project, when assessing and preparing a tender submission. For tendering of projects which the general manager together with the tendering team assessed to be of relatively larger scale, higher complexity or with tight completion schedule, and therefore of higher risk, the Group would tender at a less competitive price to avoid cost overrun and aim to maintain the gross profit margin of such potential projects, in which case the Group may not be competitive enough to be awarded with the contract leading to the low success rate during the Track Record Period. Nevertheless, while the number of projects with engagement confirmed decreased from 9 for the three-month period ended 31 March 2014 to 4 for the three-month period ended 31 March 2015, the average contract sum per project with engagement confirmed for both building services engineering projects and maintenance projects were higher for the three-month period ended 31 March 2015 as compared with that for the two years ended 31 December 2013 and 2014 and for the three-month period ended 31 March 2014. For further details, please refer to the section headed “Business — Projects undertaken during the Track Record Period” above.

QUALITY CONTROL

Quality control on design and build projects

Lap Kei, being one of the Group’s operating subsidiaries carrying out the engineering business, holds the following quality management certifications:

Certification	Original Certification Date	Expiry Date
ISO 9001:2008	25 August 1998	16 June 2018

The business of the Group is operated under a set of procedures that complies with the ISO 9001:2008 quality standards. Each project has a project manager who is responsible for the project’s overall quality assurance.

Personnel responsible for the Group’s overall quality assurance include Mr. Wong, an executive Director, and Mr. Leung Chi Man, the Group’s general manager. For details of their biographical information, please refer to the section headed “Directors and senior management” in this document.

For the Group’s quality control measures over the Group’s subcontractors, please refer to the section “Business — Subcontractors — Control on subcontractors” above.

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During the Track Record Period and up to the Latest Practicable Date, the Group did not receive any material complaint or request for any kind of material compensation from the Group's customers due to quality issue in relation to services provided by the Group or works performed by its subcontractors.

OCCUPATIONAL HEALTH AND SAFETY

Safety management system

The Group's occupational health and safety measures that are required to be observed by employees of the Group and its subcontractors on site cover area include, among others, lifting appliances and gear, working at height, scaffolding, evacuation, use of electricity, handling of machinery, use of hand tools, fire safety, handling and storage of dangerous substances, etc. Depending on work activity on site, the Group provides appropriate personal protective equipment its workers on site.

The Group also provides its staff and site personnel with occupational health and safety trainings on general safety, job specific safety and safety management.

Procedures for handling employee injuries and accidents at work

Injuries exist in the building industry due to the nature of work and the potentially hazardous environment of work sites and therefore, the Group may be subject to claims from employees for work-related injuries from time to time.

Pursuant to the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the typical policies with the insurance companies, accidents and injuries involving employees of the Group and its subcontractors during their course of employment are required to be reported to the Department of Labour of the Government and/or the customer and/or the insurance company in accordance with the procedures required by law or the relevant insurance policies. The Group also maintain an internal record of accidents.

The Group has a proper system in place for recording and handling accidents and injuries of the workers (including employee of the Group's subcontractors) during the Track Record Period and up to the Latest Practicable Date. The Group's administrative department is responsible for handling accidents and injuries of the workers occurred in the work sites. To ensure that any of such incidents will be properly recorded and handled, the Group has established a system that covers the areas including (i) the recording of the accidents and injuries; and (ii) the communications between the injured person and insurance company. It is the Group's policy to have a master file maintained by the human resources department for recording the information in relation to all accidents and injuries of employees, including name of injured person and details of the accidents and injuries. To protect the benefit of related employees and the Group, it is also the Group's policy for administrative department to immediately report any possible claim to the insurance company. In the cases of serious accidents and injuries of

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employees, the Group may seek legal advice immediately should our senior management considers appropriate and necessary. The Group's major procedures of recording and handling accidents and injuries of the employees are as follows:

- (1) the injured staff should inform the site supervisor of the details of the accident as soon as possible, including venue, time, cause of injury, etc.;
- (2) the site supervisor shall perform site visit immediately to understand and to gather all relevant information of the accident. The site supervisor should prepare an incident report detailing the case and file the same with the Group's administrative department within 5 days of the accident. The Group's administrative department shall maintain a master file recording all details of injury cases reported;
- (3) the Group's administrative department shall report details of the case to the injury management agent, appointed by the Group as injury management coordinator for employees of the Group, and the Group's insurer as soon as possible. The injury management agent shall communicate with the injured person to understand the nature of the accident and shall review and comment on the Group's report to be sent to the Labour Department according to their findings. The Group is required to report work injury case to the Labour Department within 14 days (7 days for fatal cases) after the accident come to the Group's knowledge;
- (4) to speed up the settlement of work injury case, the Group may make use of paper medical clearance to facilitate the Labour Department to make assessment of compensation. The Group will file its communications with the Labour Department to its insurer;
- (5) the Group will pay the agreed compensation to the injured staff directly and the related cost and expenses in relation to work injury will be reimbursed by its insurer;
- (6) in the event that a settlement could not be reached between the Group and the injured staff with the assistance of the Labour Department, the case shall be determined by the court.

Analysis of accident rate

Set out below is the comparison between the Group's accident rate and the accident rate in the construction industry in Hong Kong during the Track Record Period:

	For the year ended		For the three-
	31 December		month period
	2013	2014	ended 31
			March
			2015
Accident rate of the Group	5.7	4.8	0
Accident rate in the construction industry in Hong Kong	40.8	Not yet available	Not yet available

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The accident rate in the construction industry is based on the Occupational Safety and Health Statistics Bulletin Issue No. 14 issued by the Occupational Safety and Health Branch, Labour Department of Hong Kong in July 2014, which represents the accident rate per 1,000 workers of the construction industry in Hong Kong in 2013. The statistic bulletin for 2014 has not been issued as at the Latest Practicable Date. The accident rate of the Group is calculated as to the number of accidents during the year divided by the estimated number of in-house workers of the Group during the year, and then multiplies by 1,000. Such estimated number of in-house workers of the Group during the year is based on estimation on monthly in-house workers deployed by the Group. Based on the above analysis, the accident rate of the Group is lower than that of the construction industry in 2013.

ENVIRONMENTAL COMPLIANCE

The Group's operations at work sites are subject to certain environmental requirements pursuant to the laws in Hong Kong, including primarily those in relation to air pollution control, noise control, water pollution control and waste disposal control. For details of the regulatory requirements, please refer to the section headed "Regulatory overview" in this document.

The Group has established measures and work procedures governing environmental protection compliance that are required to be followed by its employees and subcontractors. Such measures and procedures include, among others:

Area	Measures
Air pollution control	<ul style="list-style-type: none">(i) Erection of hoarding along the site boundary with effective dust screens, sheeting or netting if necessary(ii) Watering whenever necessary for any dusty materials before loading and unloading
Noise control	<ul style="list-style-type: none">(i) Idle equipment to be turned off as soon as possible(ii) Installation of noise barriers or enclosures if appropriate(iii) The permitted hours for operation at project site is from 7:00 a.m. to 7:00 p.m. Monday to Saturday. Works are not permitted on general public holidays
Water pollution control	<ul style="list-style-type: none">(i) Identification of wastewater discharge points before commencement of works
Waste disposal control	<ul style="list-style-type: none">(i) Labeled bins to be provided to allow segregation of recyclable materials whenever possible(ii) Construction waste materials to be segregated into different categories such as reusable construction and demolition materials for re-use on site, and other waste for transportation to landfills

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The Directors confirm that costs in relation to environmental compliance are usually borne by its customers at the work sites. During the Track Record Period, the Group did not incur any material amount in relation to compliance with applicable environmental requirements. The Group estimates that its annual cost of compliance going forward will be at a level similar to that during the Track Record Period and consistent with its scale of operation.

During the Track Record Period and up to the Latest Practicable Date, the Group did not record any non-compliance with applicable environmental requirements that resulted in prosecution or penalty being brought against the Group.

INSURANCE

During the Track Record Period, the Group secured insurance policies as set out in the following paragraphs. During the Track Record Period and up to the Latest Practicable Date, claims in an aggregate amount of approximately HK\$0.8 million have been made in respect of its insurance policies. The Directors consider that the existing insurance coverage is adequate and consistent with industry norm having regard to the Group's current operations and the prevailing industry practice.

Employees' compensation insurance

Pursuant to Section 40 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). The Group has taken out insurance policies in accordance with such requirement.

According to section 24 of the Employees' Compensation Ordinance, the Group and its customers as the principal contractors are both liable to pay compensation to any injured employees of the subcontractor who are injured in the course of employment to the subcontractor. During the Track Record Period, some of the Group's customers had taken out employees' compensation insurance policies pursuant to section 24 of the Employees' Compensation Ordinance covering the liabilities of it and its subcontractors. In such cases, the Group's subcontractors' liabilities are insured by the customer's insurance policy, which is also reflected in the contracts entered into between the Group and its customers. In other cases, the Group had taken out employees' compensation insurance policies to cover the subcontractors' employees.

Nevertheless, any compensation paid to the injured employees under the Employees' Compensation Ordinance would not exempt the Group's liabilities under common law. Pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), the limitation period for making a claim for personal injury is three years from the date of the industrial accident. On the other hand, pursuant to section 26 of the Employees' Compensation Ordinance, the compensation paid to these injured workers under common law will be reduced by the compensation already paid to the injured employee under the Employees' Compensation Ordinance.

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Contractors’ all risks insurance

During the Track Record Period, some of the Group’s customers had taken out contractors’ all risk insurance policies covering the Group’s liabilities arising from potential damage to the buildings or structures under the Group’s subcontracted works as well as potential bodily injury to third parties or damage to third parties’ properties as a result of the performance of the Group’s subcontracted works. The Group had also taken out contractors’ all risk insurance policies where the Group’s customers had not done so or if the Group considered the coverage of the insurance policies taken out by its customers might not be adequate.

Insurance on Mr. Wong

Lap Kei entered into a life insurance policy on Mr. Wong. Under the policy, the policy holder and beneficiary is Lap Kei. At the inception date, the upfront payment is separated into deposit placed and prepayment of life insurance premium, amounting to US\$130,000 (equivalent to HK\$1,012,000) and US\$8,000 (equivalent to HK\$62,000), respectively, according to the terms set out in the policy. Lap Kei may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal. For further details on the insurance on Mr. Wong, please refer to note 14 to the Accountants’ Report set out in Appendix I to this document.

Other insurance coverage

In addition, the Group has also secured insurance coverage against loss or damage to office contents and bodily injury occurring on the Group’s office premises and warehouse.

EMPLOYEES

Number of employees by function

As at 31 December 2013, 31 December 2014, 31 March 2015 and as at the Latest Practicable Date, the Group had a total of 101, 100 and 99 and 96 employees respectively. All of the employees of the Group are stationed in Hong Kong.

Set out below is the number of employees by department as at 31 December 2013, 31 December 2014, 31 March 2015 and the Latest Practicable Date:

	As at 31 December		As at	As at the
	2013	2014	31 March	Latest
			2015	Practicable
				Date
Management	3	3	3	3
Administrative department	3	3	3	5
Engineering department — Building services engineering project	48	48	44	42
Engineering department — Maintenance project	41	39	41	38
Human resources and finance department	3	3	4	4
Tendering and procurement department	3	4	4	4
Total	101	100	99	96

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Relationship with staff

The Directors confirm that the Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has the Group experienced any difficulties in the retention of experienced staff or skilled personnel during the Track Record Period, and thus the Directors consider that the Group has maintained good relationship with its employees. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in Hong Kong.

Training and recruitment policies

The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the Group’s business development. The Group provides employees’ handbook to new employees to explain the Group’s internal rules.

Remuneration policy

The Group entered into separate employment contracts with each of the Group’s employees in accordance with the applicable employment laws in Hong Kong.

The Group offers attractive remuneration package to its employees, the remuneration package includes basic salary, bonuses and other cash allowances or subsidies. The Group determines the salary of its employees mainly based on each employee’s qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee.

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PROPERTIES

Owned properties to be disposed of and leased back

During the Track Record Period, the Group owned the following properties in Hong Kong and details of which are set out below:

Address	Market value as at 30 April 2015 (HK\$'000)	Gross floor area (sq.ft.)	Usage
“Property B2” Workshop No. B2 on 6th Floor of Block B, Tonic Industrial Centre, No. 19 Lam Hing Street, Kowloon Hong Kong	8,530	1,885	For general office and operational use
“Property B4” Workshop No. B4 on 6th Floor of Block B, Tonic Industrial Centre, No. 19 Lam Hing Street, Kowloon Hong Kong	4,070	873	For general office and operational use

The Group engaged Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer to prepare a valuation report dated 29 May 2015 (the “**Valuation Report**”) on these properties.

On 29 May 2015, Lap Kei (as transferor) and LKW Co. (as transferee) entered into an agreement for sale and purchase, pursuant to Property B2, which was legally and beneficially owned by Lap Kei immediately before the Reorganisation, was sold to and purchased by LKW Co. at a consideration of HK\$8,530,000. The consideration was determined with reference to the Valuation Report. Upon completion on [13 July 2015], Property B2 became legally and beneficially owned by LKW Co..

On 29 May 2015, Wealth E & M (as transferor) and LKW Co. (as transferee) entered into an agreement for sale and purchase, pursuant to which Property B4, which was legally and beneficially owned by Wealth E & M immediately before the Reorganisation, was sold to and purchased by LKW Co. at a consideration of HK\$4,070,000. The consideration was determined with reference to the Valuation Report. Upon completion on [13 July 2015], Property B4 became legally and beneficially owned by LKW Co..

After completion of the disposal of Property B2 and Property B4, the Group entered into the tenancy agreements with LKW Co. on [13 July 2015] for the lease of Property B2 and Property B4. Please refer to the section headed “Connected transactions” in this document for further details of the tenancy agreements.

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Leased properties

As at the Latest Practicable Date, save as those disclosed in the paragraph headed “Owned property to be disposed of and leased back” above, the Group leased the following properties in Hong Kong and details of which are set out below:

Address	Gross floor area <i>(sq.ft.)</i>	Lessor	Key terms of the tenancy	Usage
Workshops Nos. B6 & B10, 6th Floor, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Kowloon	1,816	Mr. Wong	Monthly rental of HK\$26,000 (excluding management fees, rates and government rent) with tenancy period up to [31 December 2017]	For general office and operational use
Workshop No. B8, 6th Floor, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Kowloon	908	Ms. So	Monthly rental of HK\$13,000 (excluding management fees, rates and government rent) with tenancy period up to [31 December 2017]	For general office and operational use

Please refer to the section headed “Connected transactions” in this document in relation to the properties leased by the Group as at the Latest Practicable Date. During the Track Record Period, the Group had not experienced any difficulty in renewing any lease.

Property valuation

As at the Latest Practicable Date, the Group had no single property with a carrying amount of 15% or more of the Group’s total assets, and on this basis, the Group is not required by Rule 8.01A of the GEM Listing Rules to include in this document any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of the Group’s interests in land or buildings.

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INTELLECTUAL PROPERTY RIGHTS

Trademark

As at the Latest Practicable Date, the Group had applied for the registration of three trademarks in Hong Kong. Details of such trademark are set out in the paragraph headed “Intellectual property rights” in Appendix IV to this document.

Domain name

As at the Latest Practicable Date, the Group had registered two domain names, being www.lapkeieng.com and www.lapkeieng.com.hk. Details of such domain names are set out in the paragraph headed “Intellectual property rights” in Appendix IV to this document.

RESEARCH AND DEVELOPMENT

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

COMPLIANCE

The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident of the Group which is material impact non-compliance or systemic non-compliance.

LITIGATION AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, in the ordinary course of business, the Group has been involved in a number of employees’ compensation claims and personal injury claims against the Group, either in the capacity as main contractor or subcontractor, which arisen due to personal injuries suffered by the Group’s employees or the employees of the subcontractors during the course of their employment for the Group’s projects.

During the Track Record Period and up to the Latest Practicable Date, there were 19 employees’ compensation claims of which 14 were settled and five were outstanding. There were three settled personal injury claims and 17 incidents have the possibility of turning into personal injury claims against us under common law.

Claims against the Group settled (whether by way of court judgment or award or settlement)

There were 14 settled employees’ compensation claims against the Group during the Track Record Period and up to the Latest Practicable Date. The total amount settled were approximately HK\$1.5 million, of which approximately HK\$1.4 million was covered by insurance or shared by the main contractor or subcontractor.

BUSINESS

There were three settled personal injury claims against the Group during the Track Record Period and up to the Latest Practicable Date. The total amount of two of the settled claims were approximately HK\$1.3 million, of which approximately HK\$1.1 million was covered by insurance or shared by the main contractor or subcontractor. The settled amount of the other case was unknown because the claim was settled between the main contractor and the injured employee by themselves.

During the Track Record Period and up to the Latest Practicable Date, there was one employees' compensation claim in which the Group was unable to seek reimbursement from the insurer due to its late reporting of the claim to the insurer as a result of management's oversight, and the Group has therefore paid a total sum of HK\$70,000 for the settlement of the claim. For another incident of which the injured employee of subcontractor claimed for both employees' compensation and person injury under common law, the Group has paid a sum of HK\$187,000 for settlement of the claims, as the claims were not fully recovered from the insurance policy taken out by the subcontractor.

Outstanding employees' compensation claims against the Group

There were five outstanding employees' compensation claims against the Group during the Track Record Period and up to the Latest Practicable Date. The total amount being claimed in these claims are yet to be assessed as they are at the initial stage and all claims are expected to be covered by insurance. All of these outstanding employees' compensation claims are related to employees of the Group.

During the Track Record Period and up to the Latest Practicable Date, the Group and most of its main contractors had taken out insurance policy in Hong Kong to provide for a liability under such claim of not less than HK\$200 million per event for employees of the Group. All of such employees' compensation claims are expected to be fully covered by the insurance policies either maintained by the Group or the main contractors.

Potential personal injury claims against the Group under common law

As at the Latest Practicable Date, among the 19 employees' compensation claims, there are 17 claims of which the relevant personal injury claims against the Group under the common law have not been commenced and therefore those incidents have the possibility of turning into personal injury claims under common law against the Group. Since the injured persons have not yet filed claims with particulars and the claims, when being filed, will be handled by solicitors appointed by insurers of the Group or the insurers of our main contractors, the Directors are not in the position to assess the likely quantum of such potential claims. All such potential claims are expected to be fully covered by insurance either maintained by the Group or the main contractors.

Save as the claims as disclosed above, during the Track Record Period and up to the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance against third parties, nor were the Group aware of any litigation, arbitration or claim which was pending or threatened by third parties against any member of the Group that would have a material adverse effect on the Group's results of operations or financial condition.

BUSINESS

INTERNAL CONTROL

The Group has engaged Baker Tilly, an independent internal control adviser, to perform a detailed evaluation of the adequacy and effectiveness of the Group’s internal control system including the areas of financial, operation, compliance and risk management with an aim to, among other matters, improve the Group’s corporate governance, ensure compliance with the applicable safety regulations, and prevent occurrence of non-compliance incidents.

Baker Tilly is part of Baker Tilly Hong Kong which is an affiliate of Baker Tilly International. Baker Tilly is a company providing, among others, internal control review services, which has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange and companies preparing for listing in Hong Kong. The engagement team of Baker Tilly includes members of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Chartered Institute of Management Accountants, and the Institute of Internal Auditors.

In relation to the claims where the Group was unable to seek reimbursement from the insurer due to its delay in reporting the claims to the insurer, Baker Tilly has reviewed the Group’s procedures for handling employee injuries and accidents at work, including, inter alia, insurance claim reporting procedures, and consider such procedures are adequate. For further details, please refer to the section headed “Business — Occupational health and safety — procedures for handling employee injuries and accidents at work” in this document.

In relation to the claims which were not fully recovered from the insurance policy taken out by the subcontractor, Baker Tilly has recommended that before appointment of subcontractor, review and checking has to be performed by designated personnel of the Company to assess and ensure that, if the employees’ compensation insurance is taken out by subcontractor, such insurance is adequate in all material aspects, including but not limited to (i) number of workers involved; (ii) estimation on cost of workers; and (iii) full description of the nature and types of work involved. The Group has adopted such recommendation from Baker Tilly.

From 20 May 2015 to 22 May 2015, Baker Tilly performed follow up review and arrived at a view that the Group did not have significant deficiencies in its internal control system for ensuring compliance with the applicable safety regulations, and preventing the occurrence of non-compliance incidents. According to the result of the follow up review by Baker Tilly, the Directors confirmed that the Group did not have significant deficiencies in its internal control design for ensuring compliance with the applicable safety regulations, and preventing the occurrence of non-compliance incidents as at the Latest Practicable Date.

View of the Directors and the Sponsor

Having considered the background leading to the specific incidents of material claims and Baker Tilly’s views on the Group’s internal control system, the Directors are of the view, and the Sponsor concurs, that (i) the various internal control measures adopted by the Group are adequate and effective; and (ii) the incidents identified do not materially affect the suitability for the Company’s listing under Rule 11.06 of the GEM Listing Rules.