

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in the [REDACTED] Shares.

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] Shares are set out in the section headed "Risk factors" in this document. You should read that section carefully before you decide to invest in the [REDACTED] Shares.

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) MVAC 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 buildings and new buildings. 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 in 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 for 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).

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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 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 and/or upgrade of building services systems as set out in the scope of work under the contract. For maintenance projects, the Group is required to provide maintenance services for existing building services systems of a property or 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.

Pricing for either building services engineering project or maintenance project is determined on a case-by-case basis taking into account various factors. 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; (v) historical fee the Group 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 considered include (i) the Group's capacity; (ii) historical fee the Group received for similar projects; and (iii) the current fee level in the market and competitive conditions at the contract negotiation stage.

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			
	2013		2014		31 March		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>

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The table below sets forth a breakdown of the gross profit and gross profit margin during the Track Record Period by business segment:

	For the year ended 31 December		2014		For the three-month period ended 31 March		2015	
	2013	2014	2014	2015	2014	2015	2014	2015
	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	margin	margin	margin	margin	margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Building services								
engineering projects	19,875	15.6	30,257	25.6	3,480	16.3	9,529	25.5
Maintenance projects	<u>7,417</u>	41.0	<u>6,326</u>	36.9	<u>1,600</u>	41.2	<u>2,991</u>	49.7
	<u>27,292</u>	18.8	<u>36,583</u>	27.0	<u>5,080</u>	20.1	<u>12,520</u>	28.8

As at the Latest Practicable Date, the Group had 34 building services engineering projects and 36 maintenance projects in progress, with a total estimated outstanding contract sum and work order value of approximately HK\$196.0 million to be recognised after the Latest Practicable Date. 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.

In July 2015, lead was found in the water samples collected from public housing estates in Hong Kong which raised public concern about safety of drinking water in the affected buildings. According to a feature article dated 1 September 2015 published by the Centre for Health Protection, Department of Health of the Government with respect to the incident of lead in drinking water, laboratory results of drinking water samples collected from different flats of various public housing estates (Kai Ching Estate, Kwai Luen Estate (Phase 2), Wing Cheong Estate, Lower Ngau Tau Kok Estate, Shek Kip Mei Estate (Phase 2), Tung Wui Estate, Hung Hom Estate (Phase 2), Yan On Estate, Choi Fook Estate, Un Chau Estate (Phase 2, 4) and Ching Ho Estate (Phase 1)) revealed an elevated level of lead. According to the information published by the Government, lead was also found in the water samples collected from a number of schools in Hong Kong, and according to the news articles published in September 2015, it was reported that lead was also found in hospitals in Hong Kong, including Prince Philip Dental Hospital, which the Government is now investigating. To the best knowledge of the Directors, the Group was not involved in the building services engineering projects for the relevant public housing estates, schools and hospitals in Hong Kong.

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LICENCES AND PERMITS

Lap Kei and Wealth E & M are the principal operating subsidiaries of the Company. As at the Latest Practicable Date, Lap Kei and Wealth E & M had the following registrations and licences that are material to the business operations of the Group in Hong Kong:

Registration/licences	Governing authority	Registrant/holder	Date of first registration/grant	Expiry date of current licences/registration
Registered Electrical Contractor (<i>Note 1</i>)	EMSD	Lap Kei	23 February 1998	22 February 2016
		Wealth E & M	22 May 2009	21 May 2018
Registered Specialist Contractor (Ventilation Works) (<i>Note 2</i>)	Buildings Department	Lap Kei	6 June 2002	22 July 2017
Registered Fire Service Installation Contractor — Classes 1 & 2 (<i>Note 3</i>)	Fire Services Department	Lap Kei	28 August 2001	— (<i>Note 6</i>)
Approved Suppliers of Materials & Specialist Contractors for Public Works — Air-conditioning installation (Group I) (<i>Note 4</i>)	Works Branch, Development Bureau	Lap Kei	15 August 2006	— (<i>Notes 6 & 7</i>)
Registered Minor Works Contractor (Classes I, II and III) (<i>Note 5</i>)	Buildings Department	Lap Kei	11 April 2012	11 April 2018

Notes:

- (1) Lap Kei and Wealth E & M are registered as Registered Electrical Contractors to carry out electrical work in Hong Kong.
- (2) Lap Kei is registered as Registered Specialist Contractor (Ventilation Works) to carry out ventilation works to which the Building (Ventilating Systems) Regulations apply.
- (3) Lap Kei is registered as Registered Fire Service Installation Contractor — Classes 1 & 2 to (i) as for Class 1 works, install, maintain, repair and inspect any fire service installation or equipment (other than portable equipment) which contains an electrical circuit or other apparatus for the detection of warning of smoke or fire; and (ii) as for Class 2 works, install, maintain, repair and inspect any fire service installation or equipment (other than portable equipment) which contains (a) pipes and fittings designed or adapted to carry water or some other fire extinguishing medium; or (b) any type of electrical apparatus other than those specified in Class 1.

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- (4) Lap Kei is registered as an approved contractor on the air-conditioning installation category (Group I) of the Specialist List to undertake public works contracts/subcontracts for air-conditioning installation of value up to HK\$5.7 million.
- (5) 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.
- (6) The relevant registration/qualification is not subject to any periodic renewal.
- (7) 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.

CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

The Group is mainly invited by its customer (either the main contractor, property developers or occasionally the landlord itself, or its consultant) to submit a tender, or is sometimes invited to provide a quotation, for a potential project. For the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015, the number of tenders and quotations submitted by the Group were 325, 361 and 70, with the success rate of attaining engagement for projects tendered and quoted were approximately 8.9%, 6.9% and 5.7% respectively. The Group’s top five customers accounted for approximately 51.0%, 47.1% and 75.0% of the total revenue for the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015 respectively. The top five customers are not obligated in any way to continue to provide the Group with new businesses in the future at a level similar to that in the past or at all. Despite the concentration of customers, the Directors consider that the Group is not reliant on any single customer for reasons set out in the section headed “Business — Customers — Customers concentration” in this document.

Besides, the Group’s top five suppliers (excluding subcontractors) accounted for approximately 64.9%, 50.7% and 52.3% of the total material and equipment costs for the year ended 31 December 2013, 31 December 2014 and the three-month period ended 31 March 2015 respectively. The Group’s top five subcontractors accounted for approximately 49.6%, 53.8% and 52.4% of the total subcontracting charges for the year ended 31 December 2013, 31 December 2014 and the three-month period ended 31 March 2015 respectively.

OCCUPATIONAL HEALTH AND SAFETY

The Group has established in-house rules and safety measures for its employees and subcontractors’ employees to observe on construction sites in order to facilitate a safe and healthy working environment. The Group also provides its staff and site personnel with occupational health and safety trainings on general safety, job specific safety and safety management. Details of such safety and safety measures are set out in the section headed “Business — Occupational health and safety — Safety management system” in this document.

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The Group has a proper system in place for recording and handling accidents and injuries of the workers (including employees of the Group's subcontractors). The Group's administrative department is responsible for handling accidents and injuries of the workers occurred at the work sites. There were a total of 12 accidents of the Group that took place during the Track Record Period and three accidents of the Group that took place after the Track Record Period and up to the Latest Practicable Date. None of these accidents involved fatalities.

In relation to the 12 accidents that took place during the Track Record Period, there were 12 employees' compensation claims against the Group up to the Latest Practicable Date, of which 11 were settled and one was outstanding. Out of these 12 accidents, up to the Latest Practicable Date, there was one settled personal injury claim against the Group and 11 of which the relevant personal injury claims against the Group under the common law have not commenced and therefore those incidents may have the possibility of turning into personal injury claim under common law against the Group.

In relation to the three accidents of the Group that took place after the Track Record Period and up to the Latest Practicable Date, one of the relevant employees' compensation claims was settled and two were outstanding. No relevant personal injury claims against the Group under the common law has been commenced as at the Latest Practicable Date and therefore those incidents may have the possibility of turning into personal injury claims under common law against the Group.

Details of such accidents as well as claims against the Group during the Track Record Period and up to the Latest Practicable Date are set out in the sections headed "Business — Occupational health and safety — Accidents of the Group during the Track Record Period and up to the Latest Practicable Date" and "Business — Litigation and claims" in this document.

NON-COMPLIANCE

Lap Kei received two summonses both dated 17 July 2015 alleging that Lap Kei had contravened certain regulations of the Construction Sites (Safety) Regulations made under the Factories and Industrial Undertakings Ordinance in relation to a mobile metal tower supplied by Subcontractor A at the work site of a building services engineering project undertaken by the Group as a contractor for plumbing and drainage system installation for an industrial building, which was revealed by the Labour Department during an inspection that took place on 21 January 2015 (the "Non-compliances"). On 20 August 2015, Lap Kei was convicted as a result of the Non-compliances and was fined a total sum of HK\$30,000. The fine was paid by Lap Kei on 20 August 2015. There was no imprisonment sentence imposed on the Directors or the responsible personnel of the Group with respect to the Non-compliances. The legal advisers of the Company as to Hong Kong law consider that the hearing result was final and conclusive.

The Directors are of the view that the Non-compliances would not have material adverse effect on the Group's business and operation taken as a whole. Taking into account that the Non-compliances did not involve fatalities nor injuries, the amount of fine of HK\$30,000 imposed on Lap Kei with no imprisonment sentence imposed on the Directors or the responsible personnel of the Group with respect to the Non-compliances, and such hearing result was considered final and conclusive, the legal advisers of the Company as to Hong Kong law advised that the Non-compliances were unlikely to have any material adverse effect on the Group's existing licences/permits or any prima facie impediment in the Group's plan for the application to register as an approved contractor on the air-conditioning installation category (Group II) of the Specialist List.

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For details of the Non-compliances, and the internal control measures implemented by the Group to prevent the recurrence of such non-compliances and further strengthen its control on subcontractors, please refer to the section headed “Business — Non-compliance” in this document. 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, and save for the Non-compliances, there was no material breaches or violations of laws and regulations applicable to the Group that would have a material adverse effect on the Group’s business or financial condition taken as a whole.

COMPETITIVE LANDSCAPE

There is a large number of building services engineering providers in Hong Kong and the competition in the market is intense. The Directors consider that there are entry barriers of the building services industry in Hong Kong which hinder new players from entering into the industry. Such entry barriers include (i) attainment of required registrations under different authorities for different types of works; (ii) credible track record built over years of high quality of projects; and (iii) attracting experienced and qualified technical personnel. Potential competitors will also have to face challenges such as increasing labour costs, subcontracting charges, material and equipment costs which can be affected by economic factors such as macro-economic trend, property market, interest rate and inflation rate. All of the above factors create entry barriers for the Group’s potential competitors. Based on the gross value of construction works in nominal terms performed by the main contractors and the subcontractors of special trades of approximately HK\$100 billion in 2014 issued by The Census and Statistics Department of the Government and the Group’s revenue of approximately HK\$135.5 million for the year ended 31 December 2014, the Group’s revenue represented approximately 0.14% to the gross value of construction works in nominal terms performed by the main contractors and the subcontractors of special trades in 2014. To the best knowledge of the Directors, due to the lack of official and public statistics and information on each of the industry players in Hong Kong, it is difficult to accurately estimate the exact market position of the Group in Hong Kong. For further details, please refer to the sections headed “Industry overview — Competitive landscape and entry barriers” and “Industry overview — Future opportunities and challenges” in this document.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is attributable to, among other things, the following competitive strengths: (i) established track record; (ii) long-term rapport with some of the Group’s major suppliers and subcontractors; (iii) integrated one-stop engineering services for building services system; and (iv) expertise and experienced engineering team to deliver the required services. Please refer to the section headed “Business — Competitive strengths” in this document for further details.

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FINANCIAL INFORMATION

The table below sets forth the selected information and analysis from the combined statements of comprehensive income of the Group during the Track Record Period:

	Year ended 31 December		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)	
Revenue	145,505	135,493	25,223	43,397
Gross profit	27,292	36,583	5,080	12,520
Profit before taxation	20,484	29,040	3,087	9,709
Profit and total comprehensive income for the year/period	16,863	24,253	2,579	8,109

The table below sets forth the breakdown of the cost of sales of the Group during the Track Record Period:

Cost of sales

	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)			
Subcontracting charges	45,044	38.1	49,167	49.7	6,259	31.1	9,922	32.1
Material and equipment costs	37,889	32.1	33,149	33.5	8,716	43.3	12,021	38.9
Direct labour costs	23,085	19.5	22,967	23.2	5,407	26.8	6,118	19.8
Others	<u>3,453</u>	<u>2.9</u>	<u>4,087</u>	<u>4.1</u>	<u>739</u>	<u>3.7</u>	<u>803</u>	<u>2.7</u>
Actual contract costs	109,471	92.6	109,370	110.5	21,121	104.9	28,864	93.5
Add: Net movement of amounts due from (to) customers for contract work	<u>8,742</u>	<u>7.4</u>	<u>(10,460)</u>	<u>(10.5)</u>	<u>(978)</u>	<u>(4.9)</u>	<u>2,013</u>	<u>6.5</u>
Cost of Sales	<u><u>118,213</u></u>	<u><u>100</u></u>	<u><u>98,910</u></u>	<u><u>100</u></u>	<u><u>20,143</u></u>	<u><u>100</u></u>	<u><u>30,877</u></u>	<u><u>100</u></u>

The Group's profit increased for the year ended 31 December 2014 comparing to the year ended 31 December 2013 was mainly attributable to the increase in gross profit as a result of the combined effect of an increase in gross profit margin for building services engineering projects which was partly offset by a decrease in gross profit margin for maintenance projects.

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The increase in gross profit margin for building services engineering projects for the year ended 31 December 2014 was mainly attributable to (i) the building services engineering project related to a residential property for Customer G which had a higher gross profit margin of over 55% for the year ended 31 December 2014; and (ii) the building services engineering project related to a private hospital for Customer F which had a higher gross profit margin of over 40% for the year ended 31 December 2014, as compared to the Group’s overall gross profit margin of approximately 18.8% for the year ended 31 December 2013.

The Group’s profit increase for the three-month period ended 31 March 2015 comparing to the three-month period ended 31 March 2014 was mainly attributable to the increase in revenue which resulted from the revenue contribution from Customer G of approximately HK\$12.9 million for the three-month period ended 31 March 2015 (for the three-month period ended 31 March 2014: nil) which project commenced in the second quarter of 2014 and continued through the first quarter of 2015. The building services engineering project for Customer G had a higher gross profit margin of over 55% for the three-month period ended 31 March 2015 as compared with the Group’s overall gross profit margin of approximately 20.1% for the three-month period ended 31 March 2014.

As analysed above, the building services engineering projects for Customer F and Customer G, which in aggregate contributed for approximately 27.7% of the Group’s revenue for the year ended 31 December 2014 and approximately 38.0% of the Group’s revenue for the three-month period ended 31 March 2015, had significantly higher gross profit margin than those of the other building services engineering projects of the Group, which attributed to the higher overall gross profit margin of the Group for the year ended 31 December 2014 and for the three-month period ended 31 March 2015.

Please refer to the section headed “Financial information” in this document for a further discussion and analysis of the Group’s financial information.

The table below sets forth the selected information from the combined statements of financial position of the Group during the Track Record Period:

	As at 31 December		As at
	2013	2014	31 March
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current assets	66,862	111,511	97,788
Current liabilities	34,557	61,346	61,371
Non-current assets	5,868	7,161	7,016
Non-current liabilities	—	—	—
Total equity	38,173	57,326	43,433

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The equity of the Group increased from approximately HK\$38.2 million as at 31 December 2013 to approximately HK\$57.3 million as at 31 December 2014 which was primarily resulted from the profit for the year of approximately HK\$24.3 million for the year ended 31 December 2014 and partly offset by the interim dividend of HK\$5.1 million during the year. The decrease in equity of the Group from approximately HK\$57.3 million as at 31 December 2014 to approximately HK\$43.4 million as at 31 March 2015 which was mainly attributable to the interim dividend of approximately HK\$22.0 million during the period and partly offset by the profit for the period of approximately HK\$8.1 million for the three-month period ended 31 March 2015.

The table below sets forth selected information from the combined statements of cash flows of the Group:

	Year ended 31 December		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)			
Net cash from (used in) operating activities	15,564	41,991	5,077	(8,868)
Net cash (used in) from investing activities	(2,461)	(15,158)	3	11
Net cash used in financing activities	(4,588)	(2,316)	(579)	(835)
Net increase (decrease) in cash and cash equivalents	8,515	24,517	4,501	(9,692)
Cash and cash equivalents at beginning of year/period	1,033	9,548	9,548	34,065
Cash and cash equivalents at end of year/period	9,548	34,065	14,049	24,373

The cash and cash equivalents increased from approximately HK\$9.5 million as at 31 December 2013 to approximately HK\$34.1 million as at 31 December 2014 were mainly attributable to the profit for the year of approximately HK\$24.3 million and increase in trade and other payables of approximately HK\$26.1 million in the year ended 31 December 2014. The cash and cash equivalents decreased from approximately HK\$34.1 million as at 31 December 2014 to approximately HK\$24.4 million as at 31 March 2015 were mainly attributable to the increase in amounts due from customers for contract work of approximately HK\$6.9 million and decrease in trade and other payables of approximately HK\$13.2 million in the three-month period ended 31 March 2015.

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Key financial ratios

	For the year ended/ As at 31 December		For the three- month period ended/ As at 31 March
	2013	2014	2015
Gross profit margin	18.8%	27.0%	28.8%
Net profit margin	11.6%	17.9%	18.7%
Return on total assets	23.2%	20.4%	7.7%
Return on equity	44.2%	42.3%	18.7%
Current ratio	1.9 times	1.8 times	1.6 times
Gearing ratio	25.4%	14.2%	15.6%

Save as the gearing ratio, the current ratio, return on total assets and return on equity maintained stable from 31 December 2013 to 31 December 2014. The decrease in gearing ratio as at 31 December 2014 was mainly attributable to the increase in equity due to the profit for the year ended 31 December 2014 and the repayment of bank borrowing of approximately HK\$2.1 million during the year.

Please refer to the section headed “Financial information — Key financial ratios” in this document for further details of the Group’s key financial ratios.

SHAREHOLDING OF THE COMPANY

Immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the Company will be owned as to (i) [REDACTED] by Golden Luck, which is an investment holding company incorporated in BVI and owned as to 99% by Mr. Wong and 1% by Ms. So; and (ii) [REDACTED] by public Shareholders.

Mr. Wong and Ms. So are spouses. They are the executive Directors and the Controlling Shareholders. For details of the background of Mr. Wong and Ms. So, please refer to the section headed “Directors and senior management — Executive Directors” in this document.

Each of the Controlling Shareholders, the Directors, the substantial shareholders and their respective close associates does not have any interest in a business apart from the Group’s business which competes or may compete, directly or indirectly, with the Group’s business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

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RISK FACTORS

There are certain risks involved in the Group’s operations, many of which are beyond the Group’s control. The relatively material risks encompass (i) the Group’s past revenue and profit margin may not be indicative of the Group’s future revenue and profit margin; (ii) the Group is dependent on its senior management and in-house engineers, inability to retain its staff may adversely affect the Group’s business operations; (iii) loss of authorised signatory and technical director for the Group’s registrations maintained with the Buildings Department; (iv) failure to accurately estimate and control the costs of the Group’s projects may adversely affect the Group’s financial performance; and (v) the Group may not be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted. The Group’s operation and further growth may be limited by unavailability of financing at reasonable terms or at all. A detailed discussion of the risk factors that the Directors believe are particularly relevant to the Group is set out in the section headed “Risk factors” in this document.

BUSINESS STRATEGY

The Group intends to pursue the following key business strategies: (i) further development of the Group’s building services engineering business; (ii) further expansion of service scope; and (iii) further strengthening the Group’s engineering department. With respect to the further development of the Group’s building services engineering business, the Directors intend to undertake more building services engineering projects of larger scale in terms of contract sum in the future, including those that require the provision of surety bond. 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 require the provision of surety bond.

With respect to the further expansion of service scope, Lap Kei is currently an approved contractor on the air-conditioning installation category (Group I) of the Specialist List for public works involving air-conditioning installation, and intends to apply to the Works Branch of Development Bureau for the registration of an approved contractor on the air-conditioning installation category (Group II) of the Specialist List, 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. Further details of the public works that require the registration of an approved contractor on the air-conditioning installation category (Group II) of the Specialist List are contained in the section headed “Business — Business strategies” in this document.

To become an approved contractor with a probationary status on the air-conditioning installation category (Group II) of the Specialist List, the Group is required to, among other requirements, have a minimum employed capital of HK\$4.7 million. In this regard, the Group plans to increase the paid-up share capital of Lap Kei from HK\$600,000 to a minimum of HK\$[REDACTED] million by utilising HK\$[REDACTED] million from the net proceeds from the [REDACTED] in the amount of HK\$[REDACTED] million that is intended to be applied for the further expansion of service scope of the Group during the period from the Latest Practicable Date to 31 December 2015, details of which are contained in the section headed “Statement of business objectives and use of proceeds — Reasons for the [REDACTED] and use of proceeds” in this document.

Further details of the Group’s business strategies are set out in the section headed “Business — Business strategies” in this document.

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LISTING EXPENSES

The underwriting commission of approximately HK\$[REDACTED] million is shared by the Company and the Selling Shareholder based on the proportion of the [REDACTED] New Shares and [REDACTED] Sale Shares offered by the Company and the Selling Shareholder respectively. The total expenses (excluding the underwriting commission) in connection with the [REDACTED], which are expected to amount to approximately HK\$[REDACTED] million, are borne by the Company.

The Group expects that the total Listing expenses, which is non-recurring in nature, will amount to approximately HK\$[REDACTED] million. The Group expects to recognise approximately HK\$[REDACTED] million in the combined statement of comprehensive income for the year ended 31 December 2015 and to deduct the remaining of approximately HK\$[REDACTED] million from the Group’s capital. Accordingly, the financial results of the Group for the year ending 31 December 2015 are expected to be affected by the estimated expenses in relation to the [REDACTED]. Such Listing expenses is a current estimate for reference only and the final amount to be charged to the profit and loss account of the Group for the year ending 31 December 2015 and the amount to be deducted from the Group’s capital is subject to change.

CONNECTED TRANSACTIONS

The Group will continue to have certain transactions, namely (i) subcontracting arrangement with Kin Kwan; and (ii) the lease of the premises for the Group’s general office and operational use from Mr. Wong, Ms. So and LKW Co., which are conducted in its ordinary and usual course of business and constitute continuing connected transactions of the Company pursuant to the GEM Listing Rules. Further details of the continuing connected transactions, including the financial impacts thereof, are set out in the sections headed “Business — Properties” and “Connected transactions” in this document.

SUMMARY

REASONS FOR THE [REDACTED] AND USE OF PROCEEDS

The Directors believe that the [REDACTED] of the Shares on GEM will enhance the Group’s profile and the net proceeds from the [REDACTED] will strengthen the financial position and will enable the Group to implement the Group’s business plans set out in the section headed “Statement of business objectives and use of proceeds” in this document. Furthermore, a public [REDACTED] status on the Stock Exchange will offer the Group access to capital market for corporate finance exercise, assist the Group with further business development and strengthen the Group’s competitiveness.

	From the Latest Practicable Date to		For the six months ending		31 December 2017	Total
	31 December 2015	30 June 2016	31 December 2016	30 June 2017		
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Further development of the Group’s building services engineering business	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Further expansion of service scope	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Further strengthening the Group’s engineering department	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

The Directors consider that the net proceeds from the [REDACTED] and the Group’s internal resources will be sufficient to finance the Group’s business plans up to the year ending 31 December 2017.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with authorised financial institutions.

Among the [REDACTED] Shares of [REDACTED] Shares, there are an aggregate of [REDACTED] Sale Shares offered by the Selling Shareholder at the [REDACTED] Price. The net proceeds to be received by the Selling Shareholder from the sale of the Sale Shares will amount to approximately HK\$[REDACTED] million. The Company will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder under the [REDACTED].

DIVIDENDS

During the year ended 31 December 2014, an interim dividend of HK\$5.1 million was recognised as distribution by Lap Kei to its then shareholders. Such interim dividend was declared and fully paid in July 2014 and the Group financed the payment of such dividend by offsetting an equivalent amount due from Mr. Wong. During the three-month period ended 31 March 2015, an interim dividend of approximately HK\$22.0 million was recognised as distribution by Lap Kei to its then shareholders, of

SUMMARY

which HK\$10.0 million was settled by offsetting against the amount due from Mr. Wong, with the remaining balance of approximately HK\$12.0 million has been repaid in cash by the Group’s internal resources in August 2015. No dividend was paid or proposed during the year ended 31 December 2013 and the three-month period ended 31 March 2014. On 9 September 2015, the Company declared an interim dividend of HK\$9.7 million which was settled partly in cash by the Group’s internal resources and partly by off-setting against the amount due from Mr. Wong in full on 14 September 2015, taking into account (i) the bank balances and cash of the Group of approximately HK\$24.0 million as at 31 July 2015; and (ii) the proceeds from the disposal of Property B2 and Property B4 of which the aggregate consideration is HK\$12.6 million which has been settled in August 2015. Dividends declared and paid in prior periods may not be indicative of the Company’s future dividend payments. The Company cannot guarantee when, if and in what form dividends will be paid in the future. The Company currently does not have any predetermined dividend payout ratio and may declare dividends by way of cash or by other means that the Directors consider appropriate. A decision to declare any interim dividend or recommend any final dividend would require the approval of the Board and depend at the discretion of the Directors considering the factors stated in the section headed “Financial information — Dividend policy” in this document.

RECENT DEVELOPMENT SUBSEQUENT TO 31 MARCH 2015

As at 31 March 2015, the Group had 19 building services engineering projects (excluding variation orders) and 32 maintenance projects in progress. Subsequent to the Track Record Period and up to the Latest Practicable Date, 18 new building services engineering projects and 40 new maintenance projects were commenced or to be commenced, and 39 projects were completed during the period from 1 April 2015 to Latest Practicable Date, resulting in 34 building services engineering projects and 36 maintenance projects in progress. The Directors estimate that the total revenue to be recognised after the Latest Practicable Date from such projects altogether (i.e. those with contract sum confirmed as at 31 March 2015 and those that were commenced or to be commenced subsequent to the Track Record Period and up to the Latest Practicable Date) would be approximately HK\$[REDACTED] million.

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	21	13
— from 1 January 2016 to 31 December 2016	10	20
— from 1 January 2017 to 31 December 2017	3	3
Total	34	36

SUMMARY

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 HK\$'000	Maintenance projects HK\$'000
Amount of revenue expected to be recognised:		
— from the Latest Practicable Date to 31 December 2015	88,837	3,194
— from 1 January 2016 to 31 December 2016	90,731	2,869
— from 1 January 2017 to 31 December 2017	10,020	390
Total	189,588	6,453

On 29 May 2015, each of Lap Kei and Wealth E & M (as transferors) and LKW Co. (as transferee) entered into a memorandum of agreement for sale and purchase pursuant to which Property B2 and Property B4, which are legally and beneficially owned by Lap Kei and Wealth E & M, respectively, were sold to and purchased by LKW Co. at a consideration of HK\$8,530,000 and HK\$4,070,000, respectively. Details of the disposal of the relevant properties are contained in the section headed "Business — Properties" in this document. Upon completion on 13 July 2015, Property B2 and Property B4 became legally and beneficially owned by LKW Co.. With respect to the disposal, the one-off gain from the disposal of Property B2 and Property B4 of approximately HK\$8.3 million is expected to be recognised by the Group for the year ending 31 December 2015. Save for the one-off gain from the aforesaid disposal of Property B2 and Property B4 and the Listing expenses, the Group did not have any significant non-recurring items in its combined statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

The net current assets of the Group as at 31 July 2015 were approximately HK\$48.7 million. The outstanding balance of all amounts due to Mr. Wong of approximately HK\$2.6 million and due from a related party of HK\$12.6 million, being the proceeds from the aforementioned disposal of Property B2 and Property B4, have been settled before the Latest Practicable Date. As at 31 July 2015, approximately 90.9% of the outstanding trade receivables as at 31 March 2015 has been subsequently settled and approximately 85.1% of the outstanding payables as at 31 March 2015 has been subsequently settled.

NO MATERIAL ADVERSE CHANGE

Save for the Listing expenses and the disposal of Property B2 and Property B4 by Lap Kei and Wealth E & M, respectively to LKW Co., details of which are contained in the section headed "Business — Properties" in this document, the Directors confirm that, up to the date of this document, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 March 2015 (being the date to which the latest audited combined financial statements of the Group were prepared), and there is no event since 31 March 2015 which would materially affect the information shown in the accountants' report set out in Appendix I to this document.

SUMMARY

[REDACTED] STATISTICS

[REDACTED] Price	HK\$[REDACTED]
Market capitalisation of the Shares (<i>note 1</i>)	HK\$[REDACTED]
Unaudited pro forma adjusted combined net tangible assets of the Group per Share (<i>note 2</i>)	HK\$[REDACTED]

Notes:

1. The calculation of market capitalisation is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] and the [REDACTED] without taking into account the Shares that may be allotted or issued pursuant to the exercise of any option which may be granted under the Share Option Scheme.

2. The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed “(A) Unaudited pro forma statement of adjusted combined net tangible assets of the Group” in Appendix II to this document and on the basis of [REDACTED] Shares in issue at the [REDACTED] Prices of HK\$[REDACTED] per Share immediately following completion of the [REDACTED] and the [REDACTED] without taking into account the Shares that may be allotted or issued pursuant to the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate for the allotment and issue or repurchase of Shares referred to in Appendix IV to this document.

3. The unaudited pro forma adjusted combined net tangible assets of the Group in the table above has not been adjusted to show the effect of the interim dividend of HK\$9,700,000 declared by the Company for the year ending 31 December 2015 on 9 September 2015 (the “**Dividend**”). The unaudited pro forma adjusted combined net tangible assets of the Group after taking into account of the Dividend is set out below. The per share effect is based on [REDACTED] Shares as set out in note (2) above.

	Unaudited pro forma adjusted combined net tangible assets of the Group after taking into account of the Dividend <i>HK\$'000</i>	Unaudited pro forma adjusted combined net tangible assets of the Group per Share after taking into account of the Dividend <i>HK\$</i>
Based on the [REDACTED] price of HK\$[REDACTED] per Share	65,319	0.05