

FINANCIAL INFORMATION

You should read this section in conjunction with the Group's audited combined financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this document. The Group's combined financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and projections depends on a number of risks and uncertainties over which the Group does not have control. For further information, you should refer to the section headed "Risk factors" in this document.

OVERVIEW

The Group is principally engaged in the provision of engineering services for building services systems in Hong Kong. The building services engineering works undertaken by the Group 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 sectors 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 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.

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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) properties.

Revenue from building services engineering projects mainly represents the contract income, while main costs include subcontracting charges, 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 work for existing building and new building; and (ii) maintenance, repair and other services (the “**Maintenance Projects**”) which 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 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.

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. 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.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 April 2015 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office and the principal place of business is disclosed in the section headed “Corporate information” in this document.

The companies now comprising the Group underwent the Reorganisation as detailed in the section headed “History, Reorganisation and corporate structure” in this document. Prior to the Reorganisation, the entire equity interests of Lap Kei and Wealth E & M were directly held by two individuals, namely Mr. Wong and Ms. So, (collectively referred to as the Controlling Shareholders). Lap Kei and Wealth E & M were beneficially and wholly owned by the Controlling Shareholders collectively.

On 19 March 2015, LKW Enterprise was incorporated in the BVI with limited liability and is wholly-owned by the Controlling Shareholders.

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On 31 March 2015, the Controlling Shareholders transferred their entire equity interests in Lap Kei and Wealth E & M to LKW Enterprise. In consideration of the transfer, LKW Enterprise allotted and issued 99 new shares of US\$1 each to the Controlling Shareholders. Lap Kei and Wealth E & M then became wholly-owned subsidiaries of LKW Enterprise. This transaction is considered as a common control business combination as all the entities involved in the business combination were controlled by the Controlling Shareholders before and after the combination, and, accordingly, it is accounted for under merger accounting.

Pursuant to the Reorganisation, which was completed by interspersing Golden Luck and the Company between the Controlling Shareholders and LKW Enterprise, the Company became the holding company of the companies now comprising the Group on 18 May 2015. Golden Luck is the immediate and ultimate holding company of the Company after the Reorganisation and not forming part of the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial information has been prepared as if the Company had always been the holding company of the Group.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of incorporation, which is a shorter period. The combined statements of financial position of the Group as at 31 December 2013 and 2014 and 31 March 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taken into account the respective dates of incorporation.

For the purpose of preparing and presenting the financial information for the Track Record Period, the Group has consistently adopted all these new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKAS”) amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for accounting periods beginning on 1 January 2015 throughout the Track Record Period.

FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group’s results of operations and financial condition during the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed “Risk factors” in this document and as set out below:

Market demand

The Group’s results of operations are directly affected by the Group’s revenue which depends on the market demand for its building services engineering works. Market demand for the Group’s services is affected by the number and availability of building services in private property and other macroeconomic factors. During the Track Record Period, the Group’s revenue was significantly influenced by the size and number of building services engineering projects undertaken by the Group.

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Costs and availability of engineering staff in Hong Kong

The Directors consider that the Group's in-house team of engineering staff is crucial to the day-to-day operations and the continuing success of the Group. The costs of engineering staff may be affected by the demand and supply of engineers in Hong Kong as well as other economic factors such as inflation rate and general standard of living. There is no guarantee that the supply of engineers in Hong Kong will remain stable. Any significant increase or decrease in the overall supply of or demand for engineers in Hong Kong may materially affect the costs of the Group's operations and the quality of services. In the event that the Group fails to retain its existing engineering staff and/or recruit sufficient and capable engineering staff in a timely manner for the existing or future projects and/or there is a significant increase in the engineering staff costs, the operations and profitability may be materially and adversely affected.

Performance and availability of the subcontractors

The Group may engage subcontractors to perform site works based on the engineering designs and the Group does not maintain substantial direct labours or machinery for performing all the site works. Notwithstanding the evaluation and selection of subcontractors, there is no assurance that the work quality of the subcontractors can always meet the Group's requirements. Outsourcing exposes the Group to the risks associated with non-performance, delayed performance or sub-standard performance by the Group's subcontractors. As a result, the Group may incur additional costs or be subject to liability under the relevant contracts between the Group and its customers for subcontractors' unsatisfactory performance. Such events could impact upon the Group's profitability, financial performance and reputation. In addition, there is no assurance that the Group will always be able to secure suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, the Group's operation and financial position may also be adversely affected.

Accuracy in the estimation of time and costs involved in projects when providing fee quotes

The Group needs to estimate the time and costs involved in a project in order to determine the fee. There is no assurance that the actual amount of time and costs would not exceed the estimation during the performance of the projects. The actual amount of time and costs involved in completing a project may be adversely affected by many factors, including adverse weather conditions, accidents, unforeseen site conditions, departure of key engineering staff involved in the project, and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may adversely affect the Group's profit margin and results of operations.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Group's financial position and results of operations as included in this document is based on the combined financial statements prepared using the significant accounting policies set forth in note 3 of the Accountants' Report set out in Appendix I to this document, which conform with the HKFRS.

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Below is a summary of certain significant accounting policies that the Group believes are important to the presentation of its financial results and positions. The Group also has other accounting policies that the Group considers to be significant, the details of which are set forth in note 3 of the Accountants' Report set out in Appendix I to this document.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Maintenance, repair and other service income

Maintenance and repair service income, in respect of which 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, is recognised on a straight-line basis over the terms of the relevant contract.

Other service income including that from replacement of parts in electrical and maintenance system is recognised when services are provided.

Building services engineering contracts

The methods of revenue recognition for a building services engineering contract where the outcome can be estimated reliably and where the outcome cannot be estimated reliably are different. When the outcome of a building services engineering contract can be estimated reliably, such as (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; and (iii) the costs to complete the contract and the stage of completion can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured by the proportion that the value of work carried out during the year. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a building services engineering contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect whether any provision is required for foreseeable losses. The estimates are made based on past experience and knowledge of the project management.

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Provision is made for foreseeable losses as soon as they are anticipated by management. When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the combined statements of financial position as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the combined statements of financial position under trade and other receivables.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before taxation' as reported in the combined statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year/period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 of the Accountants' Report set out in Appendix I to this document, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated outcome of building services engineering contracts

The Group recognises contract revenue and cost of a building services engineering contract according to the management's estimation of the progress and outcome of the project. Estimated revenue is determined in accordance with the terms set out in the relevant contracts or, in case of variation orders, based on contract terms or other forms of agreements. Estimated contract cost, which mainly comprises direct labour costs, subcontracting charges and material and equipment costs is variable and estimated by the management on the basis of estimated cost of direct labour, subcontracting charges and costs of materials from time to time based on quotations provided by the major subcontractors/suppliers/

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vendors involved and the experience of the management. Notwithstanding that management frequent reviews and revises the estimates of both estimated revenue and costs for the building services engineering contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

Estimated impairment of trade and retention receivables

Management estimates the recoverability of trade and retention receivables at the end of each reporting period. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise.

As at 31 December 2013 and 2014 and 31 March 2015, the carrying amounts of trade and retention receivables of the Group were HK\$35.7 million, HK\$40.8 million and HK\$39.8 million, respectively.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets out the Group's combined statements of comprehensive income during the Track Record Period, which was derived from the Accountants' Report as set out in Appendix I to this document:

| | 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 |
| Cost of sales | <u>(118,213)</u> | <u>(98,910)</u> | <u>(20,143)</u> | <u>(30,877)</u> |
| Gross profit | 27,292 | 36,583 | 5,080 | 12,520 |
| Other income | 409 | 378 | 25 | 14 |
| Administrative expenses | (6,932) | (7,728) | (1,964) | (2,787) |
| Finance costs | <u>(285)</u> | <u>(193)</u> | <u>(54)</u> | <u>(38)</u> |
| Profit before taxation | 20,484 | 29,040 | 3,087 | 9,709 |
| Income tax expense | <u>(3,621)</u> | <u>(4,787)</u> | <u>(508)</u> | <u>(1,600)</u> |
| Profit and total comprehensive income for the year/period | <u>16,863</u> | <u>24,253</u> | <u>2,579</u> | <u>8,109</u> |

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Revenue

The Group's revenue represents the amount received and receivable for revenue arising from building services engineering projects and maintenance projects during the Track Record Period.

| | 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> | % |
| 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> |

Revenue in respect of the building services engineering projects is recognised based on the percentage of completion method, measured by reference to the value of work certified during the year/period. In a typical project, based on the amount of work completed, the Group makes progress payment application to the customer pursuant to the terms of the contract which sets out the amount and value of work done. Upon receiving the progress payment application, the customer or its consultant will examine the portion of work completed and would issue a payment certificate after the examination. The Group will then proceed to invoice the customer with the payment certificate received.

Revenue in respect of maintenance projects is recognised when the related services are rendered to the customer.

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 two years ended 31 December 2013 and 2014 and 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> |
| Maximum | 23,444 | 21,492 | 3,558 | 12,908 |
| Minimum | 1 | 1 | 3 | 1 |
| Average | 2,055 | 1,879 | 762 | 2,336 |

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The following table sets out the range of revenue recognised of the 120, 109 and 45 maintenance projects with revenue contribution during the two years 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 | | 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 | 1,538 | 2,166 | 796 | 1,046 |
| Minimum | 1 | 1 | 1 | 1 |
| Average | 151 | 157 | 78 | 134 |

For building services engineering project, the average revenue recognised per project decreased from approximately HK\$2.1 million for the year ended 31 December 2013 to approximately HK\$1.9 million for the year ended 31 December 2014, which was mainly attributable to that the revenue recognised from the same project with Customer A decreased from approximately HK\$23.4 million for the year ended 31 December 2013 to approximately HK\$4.5 million for the year ended 31 December 2014, while the number of building services engineering projects with revenue contribution remained stable for the two years ended 31 December 2013 and 2014. The average revenue recognised per project increased from approximately HK\$0.8 million for the three-month period ended 31 March 2014 to approximately HK\$2.3 million for the three-month period ended 31 March 2015, which was mainly due to (i) the recognition of revenue of approximately HK\$12.9 million from the project with Customer G for the three-month period ended 31 March 2015 as opposed to nil for the three-month period ended 31 March 2014 since this project commenced in the second quarter of 2014; (ii) the recognition of revenue of approximately HK\$12.7 million from the project with Customer H for the three-month period ended 31 March 2015 due to that this project commenced in the second half of 2014. Besides, the number of building services engineering projects with revenue contribution decreased from 28 for the three-month period ended 31 March 2014 to 16 for three-month period ended 31 March 2015.

For maintenance project, the average revenue recognised per project remained stable at approximately HK\$151,000 and HK\$157,000 for the two years ended 31 December 2013 and 2014, while the average revenue recognised per project increased from approximately HK\$78,000 for the three-month period ended 31 March 2014 to approximately HK\$134,000 for the three-month period ended 31 March 2015, which was mainly due to one of the maintenance projects for replacement work of MVAC systems of a residential property which contributed HK\$1.0 million during the three-month period ended 31 March 2015. During the Track Record Period, revenue recognised per maintenance project with revenue contribution was generally below HK\$1.0 million.

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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 net movement of amounts due from (to) customers from contract work arises as a result of the timing difference between incurred cost and cost attributable to revenue, whereas both revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. Therefore, the cost of sales represents costs attributable to the revenue recognised during the respective year/period.

Cost of sales primarily comprises:

- (i) Subcontracting charges represent the fees paid and payable to subcontractors who provide site works for the completion of the building services engineering projects and maintenance projects. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting charges on the Group's profits during the Track Record Period.

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The hypothetical fluctuation rates are set at 5% and 10% which are considered reasonable for the purpose of this sensitivity analysis:

| Hypothetical fluctuations in subcontracting charges | +5% | +10% | -5% | -10% |
|--|-----------------|-----------------|-----------------|-----------------|
| Change in profit before tax | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31 December 2013 | (2,252) | (4,504) | 2,252 | 4,504 |
| Year ended 31 December 2014 | (2,458) | (4,917) | 2,458 | 4,917 |
| Three-month period ended 31 March 2014 | (313) | (626) | 313 | 626 |
| Three-month period ended 31 March 2015 | (496) | (992) | 496 | 992 |
| Change in profit after tax | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31 December 2013 | (1,880) | (3,761) | 1,880 | 3,761 |
| Year ended 31 December 2014 | (2,052) | (4,106) | 2,052 | 4,106 |
| Three-month period ended 31 March 2014 | (261) | (523) | 261 | 523 |
| Three-month period ended 31 March 2015 | (414) | (828) | 414 | 828 |

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- (ii) Material and equipment costs mainly include the purchases of equipment and material being installed/utilised in the Group's building services engineering projects and maintenance projects. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's material costs on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 10% which are considered reasonable for the purpose of this sensitivity analysis:

| Hypothetical fluctuations in material and equipment costs | +5% | +10% | -5% | -10% |
|--|-----------------|-----------------|-----------------|-----------------|
| Change in profit before tax | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31 December 2013 | (1,894) | (3,789) | 1,894 | 3,789 |
| Year ended 31 December 2014 | (1,657) | (3,315) | 1,657 | 3,315 |
| Three-month period ended 31 March 2014 | (436) | (872) | 436 | 872 |
| Three-month period ended 31 March 2015 | (601) | (1,202) | 601 | 1,202 |
| Change in profit after tax | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31 December 2013 | (1,581) | (3,164) | 1,581 | 3,164 |
| Year ended 31 December 2014 | (1,384) | (2,768) | 1,384 | 2,768 |
| Three-month period ended 31 March 2014 | (364) | (728) | 364 | 728 |
| Three-month period ended 31 March 2015 | (502) | (1,004) | 502 | 1,004 |

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- (iii) Direct labour costs represent compensation and benefits provided to the staff of the Group’s project team and direct workers who are directly involved in the provision of the Group’s services. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group’s direct labour costs on the Group’s profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 15% which are considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in direct

| labour costs <i>(Note)</i> | +5% | +15% | -5% | -15% |
|--|-----------------|-----------------|-----------------|-----------------|
| Change in profit before tax | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Year ended 31 December 2013 | (1,154) | (3,463) | 1,154 | 3,463 |
| Year ended 31 December 2014 | (1,148) | (3,445) | 1,148 | 3,445 |
| Three-month period ended 31 March 2014 | (270) | (811) | 270 | 811 |
| Three-month period ended 31 March 2015 | (306) | (918) | 306 | 918 |
| Change in profit after tax | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Year ended 31 December 2013 | (964) | (2,891) | 964 | 2,891 |
| Year ended 31 December 2014 | (959) | (2,877) | 959 | 2,877 |
| Three-month period ended 31 March 2014 | (225) | (677) | 225 | 677 |
| Three-month period ended 31 March 2015 | (256) | (766) | 256 | 766 |

Note:

The higher hypothetical fluctuation rate of 15% is chosen for the sensitivity analysis of direct labour costs considering the increase in average daily wages of 3.5% to 11.9% for various kinds of workers as analysed in the section headed “Industry overview — Future opportunities and challenges — II. Labour” in this document, the potential increase in the statutory minimum wages in the future, and the Group’s plan to hire additional staff as set out in the section headed “Statement of business objectives and use of proceeds — Implementation plans” in this document.

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Gross profit margin

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 | | For the year ended 31 December | | For the three-month period ended 31 March | | For the three-month period ended 31 March | |
|----------------------|--------------------------------|-----------------|--------------------------------|-----------------|---|-----------------|---|-----------------|
| | 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 |
| | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> |
| 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 |

Gross profit for each business segment is calculated as segment revenue minus cost of sales allocated to the segment. Segment cost of sales mainly includes subcontracting charges, direct labour costs and material and equipment costs.

Gross profit margin of maintenance projects are generally higher than that of building services engineering projects because, due to the business nature of the maintenance projects, the Group mainly relies on its in-house engineering team in the provision of the services, and did not require a substantial amount of materials and external services such as subcontracting, unlike building services engineering projects which may require a significant amount of materials and subcontracting.

Please refer to the section headed “Financial information — Comparison of results of operations” in this document for a discussion of the fluctuation of the Group’s gross profit margin during the Track Record Period.

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Other income

The table below sets forth a breakdown of the Group's other income by nature during the Track Record Period:

| | For the year ended | | For 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) | |
| Bank interest income | 1 | 14 | 3 | 11 |
| Interest on a deposit paid for a life insurance policy | 16 | 13 | 4 | 3 |
| Reimbursement of employee's compensation insurance | 288 | 327 | — | — |
| Others | 104 | 24 | 18 | — |
| | 409 | 378 | 25 | 14 |

The other income of the Group mainly comprises the reimbursement of employee's compensation insurance which agreed and received in relation to compensation of workers for injury for the year/period.

Administrative expenses

The table below sets forth a breakdown of the Group's administrative and other operating expenses by nature during the Track Record Period:

| | For the year ended | | For 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) | |
| Staff costs, including directors' emoluments | 3,094 | 3,605 | 855 | 851 |
| Entertainment expenses | 253 | 387 | 285 | 733 |
| Auditors' remuneration | 131 | 700 | 53 | 175 |
| Depreciation of property, plant and equipment | 760 | 543 | 167 | 148 |
| Operating lease rentals in respect of office premises | 414 | 432 | 108 | 108 |
| Travelling expenses | 512 | 386 | 80 | 64 |
| Property management fee | 147 | 155 | 39 | 39 |
| Legal and professional fee | 344 | 108 | 63 | 23 |
| Other expenses | 1,277 | 1,412 | 314 | 646 |
| | 6,932 | 7,728 | 1,964 | 2,787 |

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The administrative and other operating expenses mainly comprise:

- (i) staff costs (including directors' emoluments), which include salaries and benefits provided to Mr. Wong, Ms. So and administrative staff;
- (ii) entertainment expenses, which mainly include costs incurred to maintain relationship with the Group's existing and potential customers and suppliers;
- (iii) auditors' remuneration, which are fees to the auditors;
- (iv) depreciation of property, plant and equipment, which is the depreciation of the Group's leasehold land and buildings, leasehold improvement, furniture, fixtures and office equipment;
- (v) operating lease rental in respect of office premises, which represents rental expenses for the Group's rented premises;
- (vi) travelling expenses, which represents expenses for travelling incurred by the Directors and staff;
- (vii) property management fee, which represents the management fee for office premises;
- (viii) legal fees, which mainly includes fees paid for legal services obtained by the Group; and
- (ix) other expenses, which mainly includes the office expenses.

Finance cost

The Group's finance cost during each of the Track Record Period is as below:

| | For the year ended | | For 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> |
| Interest on bank borrowings wholly repayable within five years | <u>285</u> | <u>193</u> | <u>54</u> | <u>38</u> |

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Income tax expenses

The Group is subject to Hong Kong Income Tax at a rate of 16.5% for the Track Record Period. The tax charge for the Track Record Period can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

| | 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) | |
| Profit before tax | <u>20,484</u> | <u>29,040</u> | <u>3,087</u> | <u>9,709</u> |
| Tax charge at Hong Kong Profits Tax | | | | |
| Rate of 16.5% | 3,380 | 4,792 | 509 | 1,602 |
| Tax effect of income not taxable for tax purpose | (3) | (5) | (1) | (2) |
| Tax effect of expenses not deductible for tax purpose | 81 | — | — | — |
| Underprovision in prior year | <u>163</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>3,621</u> | <u>4,787</u> | <u>508</u> | <u>1,600</u> |

COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2014 compared to year ended 31 December 2013

Revenue

The revenue of the Group decreased from approximately HK\$145.5 million for the year ended 31 December 2013 to approximately HK\$135.5 million for the year ended 31 December 2014, representing a decrease of approximately 6.9% as follows:

| | For the year ended 31 December | | Change % |
|--|---|-----------------|---------------------|
| | 2013 | 2014 | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| Building services engineering projects | 127,400 | 118,360 | (7.1) |
| Maintenance projects | <u>18,105</u> | <u>17,133</u> | (5.4) |
| Total revenue | <u>145,505</u> | <u>135,493</u> | (6.9) |

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The decrease in total revenue was mainly attributable to a decrease in revenue from building services engineering projects of approximately HK\$127.4 million for the year ended 31 December 2013 to approximately HK\$118.3 million for the year ended 31 December 2014 and a decrease in revenue from maintenance projects of approximately HK\$18.1 million for the year ended 31 December 2013 to approximately HK\$17.1 million for the year ended 31 December 2014.

The decrease in revenue from building services engineering projects was mainly attributable to the revenue recognised from Customer A decrease from approximately HK\$23.4 million for the year ended 31 December 2013 to approximately HK\$4.5 million for the year ended 31 December 2014 due to the Group had achieved significant completion of this project (around 80% of completion or above as at 31 December 2013).

The decrease in revenue from maintenance projects was mainly due to decrease in number of projects together with drop in average project sum. As discussed in the section headed "Business — Projects undertaken during the Track Record Period" in this document, the number of maintenance projects with contracts entered into decreased from 69 for the year ended 31 December 2013 to 66 for the year ended 31 December 2014. The average contract sum per project with contracts entered into for maintenance projects decreased from approximately HK\$149,000 for the year ended 31 December 2013 to approximately HK\$133,000 for the year ended 31 December 2014.

Cost of sales

The cost of sales of the Group decreased from approximately HK\$118.2 million for the year ended 31 December 2013 to approximately HK\$98.9 million for the year ended 31 December 2014 which represented a decrease of approximately 16.3% as follows:

| | Total | | Change | Building services engineering projects | | | Maintenance projects | | |
|--|--------------------|-----------------|---------|--|-----------------|------------------|----------------------|---------------|----------|
| | For the year ended | | | For the year ended | | | For the year ended | | |
| | 31 December 2013 | 2014 | | 31 December 2013 | 2014 | 31 December 2013 | 2014 | Change | |
| | HK\$'000 | HK\$'000 | % | HK\$'000 | HK\$'000 | % | HK\$'000 | HK\$'000 | % |
| Subcontracting charges | 45,044 | 49,167 | 9.2 | 43,235 | 46,618 | 7.8 | 1,809 | 2,549 | 40.9 |
| Material and equipment costs | 37,889 | 33,149 | (12.5) | 36,539 | 31,576 | (13.6) | 1,350 | 1,573 | 16.5 |
| Direct labour costs | 23,085 | 22,967 | (0.5) | 17,315 | 17,147 | (1.0) | 5,770 | 5,820 | 0.9 |
| Others | <u>3,453</u> | <u>4,087</u> | 18.4 | <u>1,694</u> | <u>3,222</u> | 90.2 | <u>1,759</u> | <u>865</u> | (50.8) |
| Actual contract costs | 109,471 | 109,370 | (0.1) | 98,783 | 98,563 | (0.2) | 10,688 | 10,807 | 1.1 |
| Add: Net movement of amounts due from (to) customers for contract work | <u>8,742</u> | <u>(10,460)</u> | (219.7) | <u>8,742</u> | <u>(10,460)</u> | (219.7) | <u>—</u> | <u>—</u> | <u>—</u> |
| Cost of sales | <u>118,213</u> | <u>98,910</u> | (16.3) | <u>107,525</u> | <u>88,103</u> | (18.1) | <u>10,688</u> | <u>10,807</u> | 1.1 |

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The decrease in cost of sales was mainly due to a decrease in cost of sales relating to building services engineering projects of approximately HK\$107.5 million for the year ended 31 December 2013 to approximately HK\$88.1 million for the year ended 31 December 2014 and was partly offset by a slight increase in cost of sales relating to maintenance projects of approximately HK\$10.7 million for the year ended 31 December 2013 to approximately HK\$10.8 million for the year ended 31 December 2014.

The increase in subcontracting charges together with the decrease in direct labour costs were mainly due to the increase in the use of subcontractor relative to direct workers, as reflected by that the subcontracting charges of the five largest subcontractors increased from approximately HK\$22.4 million for the year ended 31 December 2013 to approximately HK\$26.5 million for the year ended 31 December 2014.

The decrease in material and equipment costs was mainly due to the decrease in purchase from Supplier A of approximately HK\$12.5 million for the building services engineering project with Customer A, of which the revenue recognised from such project decreased from approximately HK\$23.4 million for the year ended 31 December 2013 to approximately HK\$4.5 million for the year ended 31 December 2014, which was partly offset by the increase in purchase for other building services engineering projects.

Other costs mainly represented insurance expenses, transportation expenses and consultancy fees. The increase in other costs was mainly due to the increase in consultancy fees of approximately HK\$0.6 million for the year ended 31 December 2014.

The decrease in cost of sales relating to building services engineering projects of approximately 18.1% was mainly due to the decrease in revenue for the year ended 31 December 2014 as compared to the year ended 31 December 2013. Nevertheless, the decrease in cost of sales relating to building services engineering projects of approximately 18.1% was higher than the decrease in revenue from building services engineering projects of approximately 7.1%, due to the increase in gross profit margin for building services engineering projects which was in turn attributable to the recognition of revenue from the projects with Customer F and Customer G that had significantly higher gross profit margin than other projects.

The cost of sales relating to maintenance projects remained relatively stable for the two years ended 31 December 2013 and 2014. The reason of stable cost of sales relating to maintenance projects was mainly due to stable staff costs of the Group's maintenance project division.

Gross profit and gross profit margin

The Group's total gross profit increased from approximately HK\$27.3 million for the year ended 31 December 2013 to approximately HK\$36.6 million for the year ended 31 December 2014, of which gross profit for building services engineering projects increased from approximately HK\$19.9 million for the year ended 31 December 2013 to approximately HK\$30.3 million for the year ended 31 December 2014, and gross profit for maintenance projects decreased from approximately HK\$7.4 million for the year ended 31 December 2013 to approximately HK\$6.3 million for the year ended 31 December 2014.

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The Group's gross profit margin increased from approximately 18.8% for the year ended 31 December 2013 to approximately 27.0% for the year ended 31 December 2014. Such increase was mainly due to 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.

The increase in gross profit margin for building services engineering projects 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 gross profit margin of building services engineering project for Customer G is significantly higher than those of the other building services engineering projects was mainly due to the design and specifications of the MVAC systems required by Customer G, which have air-purifying features, are more advanced in terms of output than those normally required by other customers of the Group in residential property projects.

The gross profit margin of building services engineering project for Customer F is significantly higher than those of the other building services engineering projects which was mainly due to that such project related to the modification of the MVAC systems which involves the replacement of chiller plant for a molecular laboratory in a private hospital, the standard of which is different from the MVAC systems for general air-conditioning usage.

The decrease in gross profit margin for maintenance projects was mainly due to the average contract sum per project with contracts entered into decreased from approximately HK\$149,000 for the year ended 31 December 2013 to approximately HK\$133,000 for the year ended 31 December 2014 and the cost of sales remained stable for the two years ended 31 December 2013 and 2014.

Other income

The other income of the Group decreased from approximately HK\$409,000 for the year ended 31 December 2013 to approximately HK\$378,000 for the year ended 31 December 2014 which was primarily due to a decrease in miscellaneous income partly offset by an increase in reimbursement of employee's compensation insurance for the year ended 31 December 2014.

Administrative expenses

The administrative expenses of the Group increased from approximately HK\$6.9 million for the year ended 31 December 2013 to approximately HK\$7.7 million for the year ended 31 December 2014, representing an increase of approximately HK\$0.8 million or approximately 11.6%.

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Such increase was primarily due to increase in auditors' remuneration of approximately HK\$131,000 for the year ended 31 December 2013 to approximately HK\$700,000 for the year ended 31 December 2014 due to change in the Group's auditor and increase in staff costs, including directors' emoluments from approximately HK\$3.1 million for the year ended 31 December 2013 to approximately HK\$3.6 million for the year ended 31 December 2014 due to the increase in staff bonuses for the year ended 31 December 2014.

Finance costs

The finance costs decreased from approximately HK\$285,000 for the year ended 31 December 2013 to approximately HK\$193,000 for the year ended 31 December 2014, representing a decrease of approximately 32.3%. The decrease in finance costs was mainly attributable to the decrease in level of bank borrowings from approximately HK\$9.7 million as at 31 December 2013 to approximately HK\$7.6 million as at 31 December 2014.

Profit before taxation

As a result of the foregoing, profit before taxation increased by approximately 41.5% from approximately HK\$20.5 million for the year ended 31 December 2013 to approximately HK\$29.0 million for the year ended 31 December 2014.

Income tax expense

The Group's income tax expense increased by approximately 32.2% from approximately HK\$3.6 million for the year ended 31 December 2013 to approximately HK\$4.8 million for the year ended 31 December 2014. The increase was mainly attributable to (i) the increase in profit before taxation from approximately HK\$20.5 million for the year ended 31 December 2013 to approximately HK\$29.0 million for the year ended 31 December 2014; and (ii) decrease in tax effect of expenses not deductible for tax purpose and underprovision in prior year from approximately HK\$244,000 for the year ended 31 December 2013 to nil for the year ended 31 December 2014

Profit for the year

The Group's profit for the year increased by approximately 43.8% from approximately HK\$16.9 million for the year ended 31 December 2013 to approximately HK\$24.3 million for the year ended 31 December 2014, which was mainly due to the combined effect of abovementioned items.

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Three-month period ended 31 March 2015 compared to three-month period ended 31 March 2014

Revenue

The revenue of the Group increased from approximately HK\$25.2 million for the three-month period ended 31 March 2014 to approximately HK\$43.4 million for the three-month period ended 31 March 2015, representing an increase of approximately 72.1% as follows:

| | For the three-month period ended 31 March | | Change % |
|--|--|----------------------|---------------------|
| | 2014 | 2015 | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| | (Unaudited) | | |
| Building services engineering projects | 21,340 | 37,377 | 75.1 |
| Maintenance projects | <u>3,883</u> | <u>6,020</u> | 55.0 |
| Total revenue | <u><u>25,223</u></u> | <u><u>43,397</u></u> | 72.1 |

The increase in total revenue was mainly attributable to an increase in revenue from building services engineering projects of approximately HK\$21.3 million for the three-month period ended 31 March 2014 to approximately HK\$37.4 million for the three-month period ended 31 March 2015 and an increase in revenue from maintenance projects of approximately HK\$3.9 million for the three-month period ended 31 March 2014 to approximately HK\$6.0 million for the three-month period ended 31 March 2015.

The increase in revenue from building services engineering projects was mainly attributable to:

- (i) revenue of approximately HK\$12.9 million recognised for the aforesaid building services engineering project with Customer G for the three-month period ended 31 March 2015 and nil was recognised for the three-month period ended 31 March 2014 since this project commenced in the second quarter of 2014; and
- (ii) revenue of approximately HK\$12.7 million recognised for the building services engineering project with Customer H for the three-month period ended 31 March 2015 due to this project commenced in the second half of 2014.

The increase in revenue from maintenance projects was mainly due to increase in average revenue recognised during the period per project. As discussed in the section headed “Business — Projects undertaken during the Track Record Period” in this document, the average revenue recognised during the period per maintenance project increased from approximately HK\$78,000 for the three-month period ended 31 March 2014 to approximately HK\$134,000 for the three-month period ended 31 March 2015.

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Cost of sales

The cost of sales of the Group increased from approximately HK\$20.1 million for the three-month period ended 31 March 2014 to approximately HK\$30.9 million for the three-month period ended 31 March 2015 which represented an increase of approximately 53.3% as follows:

| | Total | | Change % | Building services engineering projects | | | Maintenance projects | | |
|--|--|-------------------------|-------------|--|-------------------------|--|-------------------------|-------------------------|-------------------------|
| | For the three-month period ended 31 March | | | For the three-month period ended 31 March | | For the three-month period ended 31 March | | Change | |
| | 2014 | 2015 | | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) |
| Subcontracting charges | 6,259 | 9,922 | 58.5 | 5,726 | 9,253 | 61.6 | 533 | 669 | 25.5 |
| Material and equipment costs | 8,716 | 12,021 | 37.9 | 8,438 | 11,357 | 34.6 | 278 | 664 | 138.8 |
| Direct labour costs | 5,407 | 6,118 | 13.1 | 4,200 | 4,630 | 10.2 | 1,207 | 1,488 | 23.3 |
| Others | <u>739</u> | <u>803</u> | 8.7 | <u>474</u> | <u>595</u> | 25.5 | <u>265</u> | <u>208</u> | (21.5) |
| Actual contract costs | 21,121 | 28,864 | 36.7 | 18,838 | 25,835 | 37.1 | 2,283 | 3,029 | 32.7 |
| Add: Net movement of amounts due from (to) customers for contract work | <u>(978)</u> | <u>2,013</u> | (305.8) | <u>(978)</u> | <u>2,013</u> | (305.8) | — | — | — |
| Cost of sales | <u><u>20,143</u></u> | <u><u>30,877</u></u> | 53.3 | <u><u>17,860</u></u> | <u><u>27,848</u></u> | 55.9 | <u><u>2,283</u></u> | <u><u>3,029</u></u> | 32.7 |

The increase in cost of sales was mainly due to an increase in cost of sales relating to building services engineering projects of approximately HK\$17.9 million for the three-month period ended 31 March 2014 to approximately HK\$27.8 million for the three-month period ended 31 March 2015 and a slight increase in cost of sales relating to maintenance projects of approximately HK\$2.3 million for the three-month period ended 31 March 2014 to approximately HK\$3.0 million for the three-month period ended 31 March 2015.

The increase in subcontracting charges, material and equipment costs and direct labour costs were mainly attributable to the increase in revenue from both building services engineering projects and maintenance projects of approximately 72.1% for the three-month period ended 31 March 2015.

Other costs mainly represented insurance expenses, transportation expenses and consultancy fees. The increase in other costs was mainly due to the increase in insurance expenses of approximately HK\$0.2 million for the three-month period ended 31 March 2015.

The increase in cost of sales relating to building services engineering projects of approximately 55.9% was mainly due to the increase in actual contract costs from approximately HK\$18.8 million for the three-month period ended 31 March 2014 to approximately HK\$25.8 million for the three-month period ended 31 March 2015 which is attributable to the increase in revenue.

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The increase in cost of sales relating to maintenance projects of approximately 32.7% was mainly due to the increase in number of maintenance projects which leads to the increase in cost of sales. As discussed in the section headed "Business — Projects undertaken during the Track Record Period" in this document, the number of maintenance projects with contracts entered into increased from 12 for the three-month period ended 31 March 2014 to 17 for the three-month period ended 31 March 2015.

Gross profit and gross profit margin

The Group's total gross profit increased from approximately HK\$5.1 million for the three-month period ended 31 March 2014 to approximately HK\$12.5 million for the three-month period ended 31 March 2015, of which gross profit for building services engineering projects increased from approximately HK\$3.5 million for the three-month period ended 31 March 2014 to approximately HK\$9.5 million for the three-month period ended 31 March 2015, and gross profit for maintenance projects increased from approximately HK\$1.6 million for the three-month period ended 31 March 2014 to approximately HK\$3.0 million for the three-month period ended 31 March 2015.

The Group's gross profit margin increased from approximately 20.1% for the three-month period ended 31 March 2014 to approximately 28.8% for the three-month period ended 31 March 2015. Such increase was mainly due to an increase in gross profit margin for both building services engineering projects and maintenance projects.

The increase in gross profit margin for building services engineering projects was mainly due to the aforesaid engineering project for Customer G which 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 whereas nil was recognised for the aforesaid building services engineering project for the three-month period ended 31 March 2014 since this project commenced in the second quarter of 2014.

The gross profit margin of building services engineering project for Customer G is significantly higher than those of the other building services engineering projects was mainly due to the design and specifications of the MVAC systems required by Customer G, which have air-purifying features, are more advanced in terms of output than those normally required by other customers of the Group in residential property projects.

The increase in gross profit margin for maintenance projects was mainly attributable to the increase in revenue exceed the increase in cost of sales due to the average revenue recognised during the period per maintenance project increased from approximately HK\$78,000 for the three-month period ended 31 March 2014 to approximately HK\$134,000 for the three-month period ended 31 March 2015 and the cost of sales mainly consists of staff costs of in-house workers.

Other income

The other income of the Group decreased from approximately HK\$25,000 for the three-month period ended 31 March 2014 to approximately HK\$14,000 for the three-month period ended 31 March 2015.

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Administrative expenses

The administrative expenses of the Group increased from approximately HK\$2.0 million for the three-month period ended 31 March 2014 to approximately HK\$2.8 million for the three-month period ended 31 March 2015, representing an increase of approximately HK\$0.8 million or approximately 40.0%.

Such increase was primarily due to the increase in entertainment expenses of approximately HK\$285,000 for the three-month period ended 31 March 2014 to approximately HK\$733,000 for the three-month period ended 31 March 2015 due to the increase in customer relationship activities for the expansion of the Group's business.

Finance costs

The finance costs decreased from approximately HK\$54,000 for the three-month period ended 31 March 2014 to approximately HK\$38,000 for the three-month period ended 31 March 2015, representing a decrease of approximately 29.6%. The decrease in finance costs was mainly attributable to the decrease in level of bank borrowings from approximately HK\$9.7 million as at 31 December 2013 to approximately HK\$6.8 million as at 31 March 2015.

Profit before taxation

As a result of the foregoing, profit before taxation increased by approximately 212.9% from approximately HK\$3.1 million for the three-month period ended 31 March 2014 to approximately HK\$9.7 million for the three-month period ended 31 March 2015.

Income tax expense

The Group's income tax expense increased by approximately 215.0% from approximately HK\$508,000 for the three-month period ended 31 March 2014 to approximately HK\$1.6 million for the three-month period ended 31 March 2015. The increase was mainly attributable to the increase in profit before taxation from approximately HK\$3.1 million for the three-month period ended 31 March 2014 to approximately HK\$9.7 million for the three-month period ended 31 March 2015.

Profit for the year

The Group's profit for the year increased by approximately 211.5% from approximately HK\$2.6 million for the three-month period ended 31 March 2014 to approximately HK\$8.1 million for the three-month period ended 31 March 2015, which was mainly due to the combined effect of abovementioned items.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, the Group's operations were generally financed through a combination of shareholder's equity, internally generated cash flows and borrowings from banks and related parties. The Directors believe that in the long term, the Group's operation will be funded by internally generated cash flows and bank borrowings and, if necessary, additional equity financing.

FINANCIAL INFORMATION

Cash flows

The following table sets forth selected cash flows data from the Group's combined statements of cash flows for the years/periods indicated:

| | For the year ended | | For 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> |
| 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 equivalent at beginning of the year/period | 1,033 | 9,548 | 9,548 | 34,065 |
| Cash and cash equivalent at end of the year/period | 9,548 | 34,065 | 14,049 | 24,373 |

Net cash from (used in) operating activities

For the year ended 31 December 2013, the Group recorded net cash from operating activities of approximately HK\$15.6 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$21.5 million, decrease in amounts due from customers for contract work of approximately HK\$9.6 million, increase in trade and other payables of approximately HK\$2.3 million, increase in amounts due to customers for contract work of approximately HK\$54,000 and decrease in inventories of approximately HK\$13,000 which is partly offset by increase in trade and other receivables of approximately HK\$16.2 million, decrease in amount due to a related party of approximately HK\$5,000 and income tax paid of approximately HK\$1.6 million.

For the year ended 31 December 2014, the Group recorded net cash from operating activities of approximately HK\$42.0 million, primarily as a result of operating cash flows before movements in working capital of approximately HK\$29.7 million, increase in trade and other payables of HK\$26.1 million, decrease in inventories of approximately HK\$28,000 and increase in amount due to a related party of approximately HK\$211,000 which is partly offset by increase in amounts due from customers for contract work of approximately HK\$6.1 million, decrease in amounts due to customers for contract work of approximately HK\$197,000, increase in trade and other receivables of approximately HK\$5.2 million and income tax paid of approximately HK\$2.5 million.

FINANCIAL INFORMATION

For the three-month period ended 31 March 2015, the Group recorded net cash used in operating activities of approximately HK\$8.9 million, primarily as a result of increase in amounts due from customers for contract work of approximately HK\$6.9 million, increase in inventories of approximately HK\$4,000 and decrease in trade and other payables of approximately HK\$13.2 million which is partly offset by operating cash flows before movements in working capital of approximately HK\$9.9 million, increase in amounts due to customers for contract work of approximately HK\$867,000, decrease in trade and other receivables of approximately HK\$321,000 and increase in amount due to a related party of approximately HK\$102,000.

The Group recorded higher net cash generated from operating activities for the year ended 31 December 2014 than that for the year ended 31 December 2013 despite higher profit before taxation, which was mainly due to the increase in trade and other payables partly offset by the increase in trade and other receivables and increase in amounts due from customers for contract work. Further discussion on these items are set out in the section headed “Financial information — Net current assets” below.

The Group recorded higher profit before taxation for the three-month period ended 31 March 2015 than that for three-month period ended 31 March 2014. Nevertheless, the Group recorded net cash used in operating activities for the three-month period ended 31 March 2015 mainly because of the decrease in trade and other payables and increase in amounts due from customers for contract work.

Net cash (used in) from investing activities

For the year ended 31 December 2013, the Group recorded net cash used in investing activities of approximately HK\$2.5 million, which mainly represents advance to a director.

For the year ended 31 December 2014, the Group recorded net cash used in investing activities of approximately HK\$15.2 million, primarily as a result of advance to a director of approximately HK\$14.5 million and purchase of property, plant and equipment of approximately HK\$1.8 million, which is partly offset by repayment from a director of approximately HK\$1.1 million and interest received of approximately HK\$14,000.

For the three-month period ended 31 March 2015, the Group recorded net cash from investing activities of approximately HK\$11,000, which solely represents interest received.

Net cash used in financing activities

For the year ended 31 December 2013, the Group recorded net cash used in financing activities of approximately HK\$4.6 million, primarily as a result of repayment to a director of approximately HK\$3.7 million, repayment of bank borrowings of approximately HK\$3.8 million, interest paid of approximately HK\$285,000, which is partly offset by bank borrowings raised of approximately HK\$3.0 million and advance from a director of approximately HK\$150,000.

For the year ended 31 December 2014, the Group recorded net cash used in financing activities of approximately HK\$2.3 million, primarily as a result of repayment of bank borrowings of approximately HK\$2.1 million and interest paid of approximately HK\$193,000.

FINANCIAL INFORMATION

For the three-month period ended 31 March 2015, the Group recorded net cash used in financing activities of approximately HK\$835,000, primarily as a result of repayment of bank borrowings of approximately HK\$797,000 and interest paid of approximately HK\$38,000.

NET CURRENT ASSETS

The following table sets forth the breakdown of the Group's current assets and liabilities as at the dates indicated:

| | As at 31 December | | As at 31 March | As at 31 July |
|---|--------------------------|-----------------|---------------------------|--------------------------|
| | 2013 | 2014 | 2015 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | (Unaudited) |
| Current assets | | | | |
| Inventories — raw materials and consumables | 64 | 36 | 40 | 38 |
| Amounts due from customers for contract work | 17,543 | 23,646 | 30,518 | 24,381 |
| Trade and other receivables | 37,245 | 42,467 | 42,146 | 42,852 |
| Amount due from a related party | — | — | — | 12,600 |
| Amount due from a director | 2,462 | 10,711 | 711 | — |
| Bank balances and cash | 9,548 | 34,651 | 24,373 | 24,000 |
| | 66,862 | 111,511 | 97,788 | 103,871 |
| Current liabilities | | | | |
| Amounts due to customers for contract work | 1,865 | 1,668 | 2,535 | 6,355 |
| Trade and other payables | 20,496 | 46,546 | 33,383 | 26,113 |
| Dividend payable | — | — | 12,002 | 12,002 |
| Amount due to a related party | — | 211 | 313 | 403 |
| Amount due to a director | — | — | — | 2,589 |
| Tax payable | 2,510 | 4,772 | 6,372 | 7,699 |
| Bank borrowings | 9,686 | 7,563 | 6,766 | — |
| Bank overdrafts | — | 586 | — | — |
| | 34,557 | 61,346 | 61,371 | 55,161 |
| Net current assets | 32,305 | 50,165 | 36,417 | 48,710 |

FINANCIAL INFORMATION

As at 31 December 2013, the Group recorded net current assets of approximately HK\$32.3 million. The key components of the Group's current assets as at 31 December 2013 included amounts due from customers for contract work of approximately HK\$17.5 million, trade and other receivables of approximately HK\$37.2 million, amount due from a director of approximately HK\$2.5 million, and bank balances and cash of approximately HK\$9.5 million. The key components of the Group's current liabilities as at 31 December 2013 included amounts due to customers for contract work of approximately HK\$1.9 million, trade and other payables of approximately HK\$20.5 million, tax payable of approximately HK\$2.5 million and bank borrowings of approximately HK\$9.7 million.

As at 31 December 2014, the Group recorded net current assets of approximately HK\$50.2 million. The key components of the Group's current assets as at 31 December 2014 included amounts due from customers for contract work of approximately HK\$23.6 million, trade and other receivables of approximately HK\$42.5 million, amount due from a director of approximately HK\$10.7 million and bank balances and cash of approximately HK\$34.7 million. The key components of the Group's current liabilities as at 31 December 2014 included amounts due to customers for contract work of approximately HK\$1.7 million, trade and other payables of approximately HK\$46.5 million, amount due to a related party of approximately HK\$211,000, tax payable of approximately HK\$4.8 million, bank overdrafts of approximately HK\$586,000 and bank borrowings of approximately HK\$7.6 million.

The increase in the Group's net current assets as at 31 December 2014 compared to that as at 31 December 2013 was mainly due to the increase in current assets from approximately HK\$66.9 million as at 31 December 2013 to approximately HK\$111.5 million as at 31 December 2014, which was in turn mainly due to the increase in amounts due from customers for contract work, trade and other receivables, amount due from a director and bank balances and cash, partly off-set by the increase in trade and other payables and tax payable.

As at 31 March 2015, the Group recorded net current assets of approximately HK\$36.4 million. The key components of the Group's current assets as at 31 March 2015 included amounts due from customers for contract work of approximately HK\$30.5 million, trade and other receivables of approximately HK\$42.1 million, amount due from a director of approximately HK\$711,000 and bank balances and cash of approximately HK\$24.4 million. The key components of the Group's current liabilities as at 31 March 2015 included amounts due to customers for contract work of approximately HK\$2.5 million, trade and other payables of approximately HK\$33.4 million, dividend payable of approximately HK\$12.0 million, amount due to a related party of approximately HK\$313,000, tax payable of approximately HK\$6.4 million and bank borrowings of approximately HK\$6.8 million.

The decrease in the Group's net current assets as at 31 March 2015 compared to that as at 31 December 2014 was mainly due to the decrease in current assets from approximately HK\$111.5 million as at 31 December 2014 to approximately HK\$97.8 million as at 31 March 2015, which was in turn mainly attributable to decrease in amount due from a director as well as bank balances and cash from the payment of dividend while the level of current liabilities maintained at similar level as at 31 December 2014 and 31 March 2015.

As at 31 July 2015, being the latest practicable date for ascertaining the Group's net current assets position, the Group recorded net current assets of approximately HK\$48.7 million which is higher than the level of the net current assets of approximately HK\$36.4 million as at 31 March 2015.

FINANCIAL INFORMATION

INVENTORY ANALYSIS

The Group keeps a low level of inventories as most of the use of materials would be procured by the Group's subcontractors. The Group's inventories are raw materials and consumables and were approximately HK\$64,000, HK\$36,000 and HK\$40,000, respectively, as at 31 December 2013, 31 December 2014 and 31 March 2015.

TRADE AND OTHER RECEIVABLES ANALYSIS

Overview

The Group's trade and other receivables as at 31 December 2013 and 2014 and as at 31 March 2015 amounted to approximately HK\$37.2 million, HK\$42.5 million and HK\$42.1 million, respectively, details of which are set out below:

| | As at 31 December | | As at |
|---|--------------------------|-----------------|-----------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables | 24,242 | 31,609 | 29,076 |
| Retention receivables | 11,481 | 9,207 | 10,763 |
| Other receivables, deposits and prepayments | 1,522 | 1,651 | 2,307 |
| Total trade and other receivables | 37,245 | 42,467 | 42,146 |

The Group's trade and other receivables mainly comprise trade receivables and retention receivables. Trade receivables represent receivables from the Group's customers arising from the provision of engineering services and maintenance services for building services systems. Retention receivables represent retention money withheld by some of the Group's customers which usually amounted to 5% to 10% of each fee payment. Retention receivables are released by the customers in accordance with the respective agreements with customers, which is released at the end of the defect liability period, which is in generally a twelve-month period.

The Group's trade and other receivables maintained stable from approximately HK\$37.2 million as at 31 December 2013 to approximately HK\$42.5 million as at 31 December 2014, representing an increase of approximately 14.0%. Such increase was mainly due to the increase in trade receivables from approximately HK\$24.2 million as at 31 December 2013 to approximately HK\$31.6 million as at 31 December 2014, of which invoices being issued to Customer F amounted to approximately HK\$13.5 million as at 31 December 2014, as compared with that of approximately HK\$0.9 million as at 31 December 2013 as a result of higher amount of work done certified in the last quarter of 2014.

The Group's trade and other receivables remained stable as at 31 March 2015 comparing with that as at 31 December 2014.

FINANCIAL INFORMATION

Ageing analysis and subsequent settlement

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 overdue payments included issue of payment reminders and active communications with the customers.

The following is an aged analysis of trade receivables presented based on invoice dates at the end of each reporting period:

| | As at 31 December | | As at |
|--------------|--------------------------|-----------------|-----------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0–30 days | 13,401 | 14,412 | 19,101 |
| 31–60 days | 2,846 | 12,775 | 3,062 |
| 61–90 days | 1,339 | 956 | 1,241 |
| Over 90 days | 6,656 | 3,466 | 5,672 |
| | 24,242 | 31,609 | 29,076 |

The trade receivables aged between 31 to 60 days increased significantly from approximately HK\$2.8 million as at 31 December 2013 to approximately HK\$12.8 million as at 31 December 2014, which was mainly due to the trade receivables of approximately HK\$8.1 million arising from the aforesaid project with Customer F as at 31 December 2014 that was past due for one month but was subsequently fully settled in the three-month period ended 31 March 2015.

Included in the Group's trade receivables balances as at 31 December 2013 and 2014 and 31 March 2015 are debtors with aggregate carrying amount of approximately HK\$10.8 million, HK\$17.2 million and HK\$10.0 million, respectively, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables were 165 days, 92 days and 172 days as at 31 December 2013 and 2014 and 31 March 2015, respectively.

The Group did not make any provision for impairment for the aforesaid trade receivables which are past due but not impaired, mainly due to that such receivables arose from the Group's ongoing projects which were related to the Group's existing customers with settlement history considered to be satisfactory by the Directors. Up to 31 July 2015, approximately 90.9% of the trade receivables as at 31 March 2015 had been subsequently settled, of which approximately 81.4% of the trade receivables past due as at 31 March 2015 had been subsequently settled.

FINANCIAL INFORMATION

Ageing of trade receivables which are past due but not impaired

| | As at 31 December | | As at |
|--------------|--------------------------|-----------------|-----------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 31–60 days | 2,846 | 12,775 | 3,062 |
| 61–90 days | 1,339 | 956 | 1,241 |
| Over 90 days | <u>6,656</u> | <u>3,466</u> | <u>5,672</u> |
| | <u>10,841</u> | <u>17,197</u> | <u>9,975</u> |

Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer, assesses the potential customer's credit quality and defines credit limits by customer. The majority of the Group's trade receivables that are neither past due but not impaired have good credit quality with reference to respective settlement history. The Group does not hold any collateral over these balances.

The Group's policy on the making of provision of trade receivables is based on an evaluation of collectability and ageing analysis of the receivables which requires the use of judgment and estimates. Provisions are made to the relevant trade receivables when there are events or changes in circumstances indicate that the balances may not be collectible. The Group closely reviews its balance of trade receivables and any overdue balances on an ongoing basis, and assessments are made by its management on the collectability of overdue balances.

The Group did not recognise the allowance for doubtful debts as at 31 December 2013 and 2014 and 31 March 2015 due to the majority of trade receivables relate to customers for whom there was no recent history of default.

Trade receivable turnover days

The following table sets out the trade receivables turnover days during the Track Record Period:

| | As at 31 December | | As at |
|---|--------------------------|-------------|-----------------|
| | 2013 | 2014 | 31 March |
| | | | 2015 |
| Trade receivables turnover days (<i>note</i>) | 50 | 75 | 64 |

Note: Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by sales for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year).

FINANCIAL INFORMATION

The Group's trade receivables turnover days increased from approximately 50 days as at 31 December 2013 to approximately 75 days as at 31 December 2014 due to the invoices billing to Customer F of approximately HK\$0.9 million as at 31 December 2013 increased to approximately HK\$13.5 million as at 31 December 2014 as a result of higher amount of work done certified in last quarter of 2014. The trade receivable turnover days decreased from approximately 75 days as at 31 December 2014 to approximately 64 days as at 31 March 2015. Such decrease was mainly due to settlement of trade receivables arising from the building services engineering project with Customer F in the three-month period ended 31 March 2015.

The Group's trade receivable turnover days during the Track Record Period were generally longer than the Group's credit terms of 30 days during the Track Record Period due to that some of the Group's customers, being main contractors, required the settlement of progress payment due to the Group on a back-to-back basis (with such clause contained in contract in some cases), i.e. the main contractor would settle the progress payment due by it to the Group only after such main contractor receiving the corresponding progress payment due by the project's employer, notwithstanding a credit terms of 30 days offered by the Group. This process usually prolongs the timing of settlement which the Directors consider such back-to-back arrangement in settlement of progress payment is a common practice in the industry.

Retention receivable

In determining the recoverability of retention receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. As at 31 December 2013 and 2014 and 31 March 2015, none of the retention receivables were individually determined to be impaired.

Retention receivables amounted to approximately HK\$11.5 million, HK\$9.2 million and HK\$10.8 million as at 31 December 2013 and 2014 and 31 March 2015 respectively. The Directors consider that the changes were generally consistent with the Group's business growth during the Track Record Period.

Up to 31 July 2015, approximately 1% of retention receivables as at 31 March 2015 had been subsequently settled. In view of the nature of retention receivables, past payment records, and the Group's collection experience with these customers, the Directors consider that the outstanding balance of retention receivables is collectable.

FINANCIAL INFORMATION

TRADE PAYABLES ANALYSIS

The trade and other payables breakdown of the Group as at the end of each of the Track Record Period is as follows:

| | As at 31 December | | As at |
|------------------------------------|--------------------------|-------------------|-------------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 14,535 | 15,515 | 11,687 |
| Retention payables | 194 | 819 | 1,075 |
| Accruals | 5,693 | 14,237 | 10,636 |
| Receipt in advance | <u>74</u> | <u>15,975</u> | <u>9,985</u> |
| Total trade and other payables | <u>20,496</u> | <u>46,546</u> | <u>33,383</u> |

Trade payables mainly represent amounts payable to suppliers such as subcontracting charges and material and equipment costs.

Retention payables represent the portion of account payable to the subcontractors that will be released by the Group at the end of the defect liability period, which is generally a twelve-month period. As at 31 December 2013 and 2014 and 31 March 2015, retention payables of approximately HK\$194,000, HK\$819,000 and HK\$1.1 million respectively were expected to be paid or settled after less than twelve months from the end of the corresponding reporting period.

The breakdown of accruals of the Group as at the end of each of the Track Record Period is as follows:

| | As at 31 December | | As at |
|-------------------------------|--------------------------|-------------------|-------------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Subcontracting charges | 411 | 7,753 | 2,944 |
| Material and equipment cost | 213 | 420 | 666 |
| Staff salaries and allowances | 4,613 | 4,925 | 5,597 |
| Other accruals | <u>456</u> | <u>1,139</u> | <u>1,429</u> |
| Total accruals | <u>5,693</u> | <u>14,237</u> | <u>10,636</u> |

Accrued operating expenses mainly consist of accruals for (i) subcontracting charges, which were not yet billed by the subcontractors; (ii) purchase cost of materials, which were not billed by the suppliers; (iii) staff salaries and allowances; and (iv) other office expenses.

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The Group's accruals increased from approximately HK\$5.7 million as at 31 December 2013 to approximately HK\$14.2 million as at 31 December 2014 which was primarily due to the increase in accruals for subcontracting charges for the year ended 31 December 2014 arising from the increase in subcontractors' works for the project with Customer G in the second half of 2014. The Group's accruals decreased from approximately HK\$14.2 million as at 31 December 2014 to approximately HK\$10.6 million as at 31 March 2015 which was mainly due to that the subcontracting charges yet to be billed as at 31 December 2014 was subsequently billed by the subcontractors which resulted to the decrease in accruals for subcontracting charges during the three-month period ended 31 March 2015.

The Group's trade payables increased from approximately HK\$14.5 million as at 31 December 2013 to approximately HK\$15.5 million as at 31 December 2014 which was primarily due to the increase in subcontracting charges for the year ended 31 December 2014 as compared with that for the year ended 31 December 2013 as a result of the execution of two projects of relatively large contract sum with Customer G and Customer H in the second half of 2014.

The trade payables decreased from approximately HK\$15.5 million as at 31 December 2014 to approximately HK\$11.7 million as at 31 March 2015 mainly due to that the Group settled the trade payables of approximately HK\$2.5 million to Supplier B in the three-month period ended 31 March 2015.

Receipt in advances mainly represents the deposits paid by the customers for building services engineering projects. It increased from approximately HK\$74,000 as at 31 December 2013 to HK\$16.0 million as at 31 December 2014 mainly due to the deposit of approximately HK\$20.8 million paid by Customer G in 2014 which was partly utilised by the Group's work done during the year ended 31 December 2014. Receipt in advances further decreased to approximately HK\$10.0 million as at 31 March 2015 due to the higher amount of work done for the project with Customer G during the three-month period ended 31 March 2015.

Ageing analysis of the Group's trade payables based on invoice dates at the end of each reporting period is as follows:

| | As at 31 December | | As at |
|--------------|--------------------------|-----------------|-----------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0-30 days | 7,393 | 11,563 | 6,516 |
| 31-60 days | 4,838 | 1,627 | 3,444 |
| 61-90 days | 461 | 1,120 | 717 |
| Over 90 days | 1,843 | 1,205 | 1,010 |
| | 14,535 | 15,515 | 11,687 |

Up to 31 July 2015, approximately 85.1% of the trade payables as at 31 March 2015 had been subsequently settled.

FINANCIAL INFORMATION

The following table sets out the trade payables turnover days during the Track Record Period:

| | As at 2013 | 2014 | As at 31 March 2015 |
|---|-----------------------|-------------|------------------------------------|
| Trade payable turnover days (<i>note</i>) | 41 | 55 | 40 |

Note: Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of sales for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for a full year).

The Group's trade payable turnover days increased from approximately 41 days as at 31 December 2013 to approximately 55 days as at 31 December 2014 due to the relatively higher closing balance of trade payables as at 31 December 2014 and the cost of sales decreased for the year ended 31 December 2014 comparing with the year ended 31 December 2013 arising from the net movement of amounts due from(to) customers for contract work. The Group's trade payable turnover days decreased from approximately 55 days as at 31 December 2014 to approximately 40 days as at 31 March 2015. Such decrease was mainly due to the Group settled the trade payables of approximately HK\$2.5 million to Supplier B during the three-month period ended 31 March 2015.

AMOUNT DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

Amount due to customers for contract work represents building services engineering projects in progress where the Group's progress billings exceed costs incurred plus recognised profits less recognised losses. Conversely, if costs incurred plus recognised profits less recognised losses exceed progress billings, an amount due from customers for contract work will be recognised as the Group's current assets.

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The following table sets forth the Group's contracts costs incurred plus recognised profits less recognised losses and the Group's progress billings as at the dates indicated:

| | As at 31 December | | As at |
|---|--------------------------|----------------------|----------------------|
| | 2013 | 2014 | 31 March |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Contracts in progress at the end of the reporting period: | | | |
| Contract costs incurred to date | 160,386 | 193,815 | 195,999 |
| Add: Recognised profits less recognised losses | <u>41,506</u> | <u>63,602</u> | <u>64,345</u> |
| | 201,892 | 257,417 | 260,344 |
| Less: Progress billings | <u>(186,214)</u> | <u>(235,439)</u> | <u>(232,361)</u> |
| | <u><u>15,678</u></u> | <u><u>21,978</u></u> | <u><u>27,983</u></u> |
| Analysed for reporting purposes as: | | | |
| Amounts due from customers for contract work | 17,543 | 23,646 | 30,518 |
| Amounts due to customers for contract work | <u>(1,865)</u> | <u>(1,668)</u> | <u>(2,535)</u> |
| | <u><u>15,678</u></u> | <u><u>21,978</u></u> | <u><u>27,983</u></u> |

The net amounts due from (to) customers for contract work increased by approximately HK\$6.3 million from approximately HK\$15.7 million as at 31 December 2013 to approximately HK\$22.0 million as at 31 December 2014, which was mainly attributable to the execution of the project of Customer G that commenced in the second half of 2014 with considerable start-up costs incurred, including subcontracting charges, material and equipment costs and labour costs, while works completed had not been applied for payment/under certification by customer as at 31 December 2014.

The net amounts due from (to) customers for contract work increased by approximately HK\$6.0 million from approximately HK\$22.0 million as at 31 December 2014 to approximately HK\$28.0 million as at 31 March 2015, which was mainly attributable to the execution of one of the Group's projects that commenced in the last quarter of 2014 and continued through the first quarter of 2015 with considerable start-up costs incurred including subcontracting charges, material and equipment costs and labour costs, while works completed had not been applied for payment as at 31 March 2015.

FINANCIAL INFORMATION

AMOUNTS DUE FROM (TO) A DIRECTOR/RELATED COMPANIES

Amount due from a director represents amount due from Mr. Wong to the Group. The amount is non-trade related, unsecured, interest-free and repayable on demand. The maximum outstanding amounts during the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015 were approximately HK\$2.5 million, HK\$10.7 million and HK\$10.7 million respectively.

As at 31 July 2015, there were approximately HK\$2.6 million due to Mr. Wong and approximately HK\$12.6 million due from a related party, being the proceeds from the disposal of Property B2 and Property B4. Such amounts due to Mr. Wong and due from a related party have been fully settled before the Latest Practicable Date.

Amount due to a related party represents amount due to Kin Kwan, the sole beneficial owner of which is a brother of Mr. Wong. The amount is trade-related, unsecured, interest-free and with a credit period of 30 days. The amount is aged within 30 days based on invoice dates at the end of each reporting period.

TAX LIABILITIES

The Group's income tax expenses for the two years ended 31 December 2013 and 2014 and for the three-month period ended 31 March 2015 were approximately HK\$3.6 million, HK\$4.8 million and HK\$1.6 million respectively. The Group's tax liabilities as at 31 December 2013, 31 December 2014 and 31 March 2015 were approximately HK\$2.5 million, HK\$4.8 million and HK\$6.4 million respectively.

Set out below is a breakdown of tax expenses of the Group for the year ended 31 December 2013:

| | Income tax expenses for the year ended 31 December 2013 HK\$'000 | Tax payable HK\$'000 | Tax payment settled in 2014 HK\$'000 |
|--|---|-------------------------------------|---|
| As at 1 January 2013 | — | 489 | — |
| Income tax balance brought forward settled in 2013 | — | (489) | — |
| Tax expenses for the year of assessment 2013/2014, settled in 2013 as provisional tax payment | 1,111 | — | — |
| Tax expenses for the year of assessment 2013/2014, settled in 2014 | 702 | 702 | 702 |
| Provisional tax for the year of assessment 2014/2015 paid in 2014 | — | — | 1,823 |
| Additional tax provision for the year of assessment 2013/2014 arising from the adjustment to the income tax expenses, pending settlement | 1,645 | 1,645 | — |
| Additional tax provision for the year of assessment 2012/2013 or before arising from the adjustment to the income tax expenses, pending settlement | 163 | 163 | — |
| As at 31 December 2013 | 3,621 | 2,510 | 2,525 |

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The income taxes paid during 2014 were based on tax returns filed by the Group for the year ended 31 December 2013, which were in turn prepared by the Group in accordance with the 2013 statutory financial statements of the Group's subsidiary audited by the Group's predecessor auditor and assessed and computed by the Inland Revenue Department of Hong Kong ("IRD").

In preparation of the financial information of the Group for the Track Record Period, the management of the Company had identified cut-off errors, being accounting errors in relation to the recognition of the contract revenue and the corresponding cost, in the statutory financial statements of the Group's subsidiaries for the years prior to and the year ended 31 December 2013, where certain revenue and the corresponding cost recognised in financial years ended 31 December 2013 and 2014 should be recognised in the financial year ended 31 December 2013 or prior periods.

Relevant adjustments have been made to the revenue and cost of services of the Group for the year ended 31 December 2013 and prior periods, and relevant adjustments shall be made to the income tax expenses. As a result of the foregoing and taking into account of materiality, the tax undercharged for the year ended 31 December 2013 and prior periods of approximately HK\$1.6 million and HK\$0.2 million, respectively have been provided in the profit or loss of the year ended 31 December 2013. Such amount of undercharged is subject to final assessment of the IRD.

In this connection, Edwin Yeung & Company (CPA) Limited, the Group's tax adviser, has issued an independent Hong Kong tax opinion (the "**Tax Opinion**") as to the potential tax penalty resulting from the tax undercharged for the year ended 31 December 2013 and prior periods which amounted to approximately HK\$1.8 million. Based on the Tax Opinion, Edwin Yeung & Company (CPA) Limited opines that, given that the filing to the IRD for tax reassessment is on voluntary basis, the IRD should categorise the case as voluntary disclosure. It is further opined in the Tax Opinion that the IRD is likely to assess the case as "fail to exercise reasonable care" which according to the Penalty Policy from the IRD website, the potential tax penalty shall be at a minimum 5% of the aggregated tax undercharged plus interest, being approximately HK\$90,000 plus interest, whereas the maximum tax penalty is 30% of the aggregated tax undercharged, being approximately HK\$542,000. Based on the Tax Opinion, the potential tax penalty is unlikely to reach the maximum amount under the category of "fail to exercise reasonable care" and the potential tax penalty is expected to be approximately HK\$90,000, being 5% of the aggregated tax undercharged, plus interest. Based on the Tax Opinion, the management of the Company considered that the amount of potential tax penalty that might be imposed by the IRD is immaterial, and no provision for such amount has been made to the financial information of the Group for the Track Record Period accordingly.

The Group made a filing to the IRD for tax reassessment for the relevant years of assessment upon the issue of 2014 statutory financial statements in August 2015. The Group will duly settle the reassessed income tax balance in accordance with the requirement of the IRD.

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INDEBTEDNESS

The following table sets out the Group's indebtedness as at 31 December 2013, 31 December 2014, 31 March 2015 and 31 July 2015:

| | As at 31 December | | As at | As at |
|----------------------|-------------------|--------------|---------------|--------------|
| | 2013 | 2014 | 31 March 2015 | 31 July 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | (Unaudited) |
| Current liabilities: | | | | |
| Bank borrowings | 9,686 | 7,563 | 6,766 | — |
| Bank overdrafts | — | 586 | — | — |
| | <u>9,686</u> | <u>8,149</u> | <u>6,766</u> | <u>—</u> |

Note: Amount due to a related company of approximately HK\$0.2 million as at 31 December 2014, HK\$0.3 million as at 31 March 2015 and HK\$0.4 million as at 31 July 2015 are not included in indebtedness as the amount represent the subcontractor fee payable to Kin Kwan, which are operating in nature.

Save as disclosed above, the Group did not have any non-current liabilities as at 31 December 2013, 31 December 2014, 31 March 2015 and 31 July 2015.

Bank borrowings of the Group

| | As at 31 December | | As at | As at |
|---|-------------------|--------------|---------------|--------------|
| | 2013 | 2014 | 31 March 2015 | 31 July 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | (Unaudited) |
| Bank borrowings — secured: | | | | |
| Fixed rate | 2,145 | 641 | — | — |
| Variable rate | 7,541 | 6,922 | 6,766 | — |
| | <u>9,686</u> | <u>7,563</u> | <u>6,766</u> | <u>—</u> |
| Carrying amounts repayable (<i>note</i>): | | | | |
| On demand or within one year | 2,123 | 1,268 | 629 | — |
| More than one year, but not exceeding two years | 1,268 | 688 | 652 | — |
| More than two years, but not exceeding five years | 1,678 | 1,500 | 1,507 | — |
| More than five years | 4,617 | 4,107 | 3,978 | — |
| Amount shown under current liabilities | <u>9,686</u> | <u>7,563</u> | <u>6,766</u> | <u>—</u> |

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Note: All bank borrowings contain a repayment on demand clause and are shown under current liabilities. The amounts due are presented based on scheduled repayment dates set out in the loan agreements.

The fixed rate bank borrowings as at 31 December 2013 and 31 December 2014 carried interest at 3.25% per annum, which were secured by properties held by Mr. Wong and Ms. So and personal guarantees from Mr. Wong and Ms. So for an unlimited amount.

The variable rate bank borrowings carry interests at three-month Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.5% per annum or Hong Kong Prime Rate less 3% per annum. The ranges of effective interest rates on borrowings as at 31 December 2013, 31 December 2014 and 31 March 2015 (which are also equal to contracted interest rate) are from 1.88% to 2.25%, 1.87% to 2.25% and 1.88% to 2.25% per annum, respectively.

As at 31 December 2013 and 2014 and 31 March 2015, the Group’s variable rate bank borrowings were secured by (i) leasehold land and buildings and leasehold improvement held by the Group with carrying amounts of approximately HK\$4.6 million, HK\$4.4 million and HK\$4.4 million, respectively; (ii) prepayments and deposit paid for a life insurance policy held by the Group with carrying amounts of HK\$1.1 million, HK\$1.1 million and HK\$1.1 million respectively; (iii) certain properties held by Mr. Wong and Ms. So; and (iv) personal guarantees from Mr. Wong and Ms. So for an unlimited amount. The aforesaid variable rate bank borrowings had been fully repaid in July 2015 and therefore the above related parties’ guarantees and/or securities were released.

Banking facilities of the Group

As at 31 July 2015, the Group had a banking facility (the “**Banking Facility**”) of approximately HK\$25.8 million of which approximately HK\$15.0 million had been utilised for issuance of surety bonds. The Banking Facility was secured by personal guarantees from Mr. Wong and Ms. So and properties held by them.

The Banking Facility has been utilised for the issuances of surety bond, hence no amount has actually been drawn down by the Group for such issuances. The surety bond would be released after completion of the relevant project. Based on the nature of surety bond, there is no financial liability of the Group recognised for surety bond.

The aforesaid guarantees on the Banking Facility will be replaced by corporate guarantee of the Company upon [REDACTED].

Please refer to the section headed “Relationship with the Controlling Shareholders — Independence from the Controlling Shareholders — Financial independence” in this document for further details in relation to the release of personal guarantees from Mr. Wong and Ms. So and certain properties held by them as security for the Banking Facility of the Group.

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Save as disclosed above, the Group did not have, as at 31 July 2015, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirmed that (i) there has not been any material change in the Group's indebtedness and contingent liabilities since 31 July 2015 and up to the Latest Practicable Date; (ii) the bank loans and bank facilities are subject to the standard banking conditions and covenants; (iii) the Group has complied with all of the covenants under the Group's bank borrowings during the Track Record Period; (iv) the Group has not received any notice from the bank indicating that it might withdraw or downsize the bank loans and bank facility; and (v) the Group does not have any material external debt financing plans as at the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

On 29 May 2015, each of Lap Kei and Wealth E & M as vendor entered into a memorandum of agreement for sale and purchase for the disposals of Property B2 and Property B4 to LKW Co. as purchaser at an aggregate consideration of HK\$12.6 million.

Save as disclosed above, as at the Latest Practicable Date, the Group did not have any off-balance sheet arrangements or commitments.

DISCLAIMER

The Directors confirm that (i) the Group has not experienced any difficulty in obtaining bank borrowing or any default in payment on bank borrowings or any breach of finance covenants during the Track Record Period and up to the Latest Practicable Date; (ii) there has not been any material change in the Group's indebtedness and contingent liabilities since 31 July 2015 and up to the Latest Practicable Date; (iii) the Directors are not aware of any material defaults in payment of the Group's trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iv) the bank loans, finance lease and bank facility is subject to standard banking conditions; and (v) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group's bank borrowings and facilities are subject to the fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group's ability to undertake additional debt or equity financings.

Save as disclosed in the section headed "Financial information — Indebtedness" in this document, the Group did not have, at the close of business on 31 July 2015, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

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KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of the Group during the Track Record Period:

| | For the three-month period ended/ | | |
|--|--|-------------|-----------------|
| | For the year ended/ | | As at |
| | As at 31 December | | 31 March |
| | 2013 | 2014 | 2015 |
| Return on total assets (<i>Note 1</i>) | 23.2% | 20.4% | 7.7% |
| Return on equity (<i>Note 2</i>) | 44.2% | 42.3% | 18.7% |
| Current ratio (<i>Note 3</i>) | 1.9 times | 1.8 times | 1.6 times |
| Gearing ratio (<i>Note 4</i>) | 25.4% | 14.2% | 15.6% |

Notes:

1. Return on total assets is calculated based on the profit for the year/period divided by the total assets as at the end of the year/period.
2. Return on equity is calculated based on the profit for the year/period divided by total equity at the end of the year/period.
3. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective reporting date.
4. Gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at the respective reporting date.

Key financial ratios

Return on total assets

- I. The Group's return on total assets decreased from approximately 23.2% for the year ended 31 December 2013 to approximately 20.4% for the year ended 31 December 2014 due to the combined effect of (i) the net profit of approximately HK\$24.3 million for the year ended 31 December 2014 which resulted in an increase in total assets; and (ii) the distribution of dividend to Mr. Wong and Ms. So of approximately HK\$5.1 million during the year ended 31 December 2014 which resulted in a decrease in total assets.

Return on equity

- II. The Group's return on equity decreased from approximately 44.2% for the year ended 31 December 2013 to approximately 42.3% for the year ended 31 December 2014 due to the combined effect of (i) the net profit of approximately HK\$24.3 million for the year ended 31 December 2014 which also resulted in an increase in equity; and (ii) the distribution of dividend to Mr. Wong and Ms. So of approximately HK\$5.1 million during the year ended 31 December 2014 which resulted in a decrease in equity.

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Current ratio

- III. The Group's current ratio decreased from approximately 1.9 times as at 31 December 2013 to approximately 1.8 times and approximately 1.6 times as at 31 December 2014 and 31 March 2015 respectively, despite of the Group's significantly higher amount of current assets as at 31 December 2014 (of approximately HK\$111.5 million) and as at 31 March 2015 (of approximately HK\$ 97.8 million) than that as at 31 December 2013 (of approximately HK\$66.9 million) in the form of amount due from customers for contract work, trade and other receivables and cash and cash equivalents as a result of the Group's profitable operation, which is mainly attributable to the proportionally higher increase in percentage in current liabilities mainly in the form of amounts due to customers for contract work, trade and other payables and tax payable.

Gearing ratio

- IV. The Group's gearing ratio substantially improved from approximately 25.4% as at 31 December 2013 to approximately 14.2% as at 31 December 2014, which was mainly due to the Group's repayment of interest-bearing bank borrowings for the year ended 31 December 2014. The Group's gearing ratio as at 31 March 2015 increased slightly, notwithstanding the Group's repayment of interest-bearing bank borrowings and bank overdrafts during the three-month period ended 31 March 2015, to approximately 15.6% as compared to approximately 14.2% as at 31 December 2014, which is primarily attributable to the decrease in total equity as a result of the approximately HK\$22.0 million dividend declared during the three-month period ended 31 March 2015.

CAPITAL EXPENDITURES AND COMMITMENTS

Operating Lease Commitments

The Group as lessee

The Group had made minimum lease payments of HK\$414,000, HK\$432,000, HK\$108,000 (unaudited) and HK\$108,000 under operating leases during the two years ended 31 December 2013 and 2014 and the three-month periods ended 31 March 2014 and 2015, in respect of warehouses and office premises.

The Group had no commitments for future minimum lease payments under non-cancellable operating leases at the end of each reporting period.

SURETY BONDS

Certain customers of building services engineering contracts undertaken by the Group require the group entities to issue guarantees for the performance of contract work in the form of surety bonds. During the Track Record Period, the Group obtained banking facilities from banks and the banks issued surety bonds to the customers. As at 31 July 2015, the Group had the Banking Facility of approximately HK\$25.8 million of which approximately HK\$15.0 million had been utilised for surety bonds. The Banking Facility was secured by personal guarantees from Mr. Wong and Ms. So and properties held by them. No amount is actually drawn down by the Group for issuance of the surety bond, i.e. utilisation of the banking facility. The surety bond is released after completion of the project. Based on the nature of

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surety bond, there is no financial liability of the Group recognised for surety bond. The surety bonds will be released when the contracts are completed or substantially completed. The security by properties owned by Mr. Wong and Ms. So and personal guarantees provided by Mr. Wong and Ms. So will be released and conditionally replaced by the Company's corporate guarantee and bank deposit upon [REDACTED].

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

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 its total Listing expense, 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 ending 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 expense 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.

NO MATERIAL ADVERSE CHANGE

Save as the Listing expense 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.

WORKING CAPITAL

During the Track Record Period, the trade receivable turnover days of the Group were 50 days, 75 days and 64 days respectively, while trade payable turnover days were 41 days, 55 days and 40 days. Notwithstanding the mismatch in cash flow as illustrated above, the Group closely monitors its level of working capital. The Group prepares cost budget for each individual project to allow ongoing variance analysis between actual costs and the budget to avoid cost overrun. The Group also closely monitors the status of ongoing projects, and revisit the budget in case of occurrence of any material changes/delay in project. The Group also prepares an annual budget and cash flow forecast which details the expected major cash inflow and outflow for the coming 18 months which is reviewed and approved by the Directors.

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The Group also had unutilised banking facility of approximately HK\$10.8 million as at the Latest Practicable Date to finance the Group’s operations and mitigate the effects of fluctuations in cash flows if necessary.

The Directors are of the opinion that, taking into consideration the Group’s internal resources, available banking facility and the estimated net proceeds from the [REDACTED], the Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

The Company was incorporated on 29 April 2015 and hence the Company had no distributable reserves available for distribution to the Shareholders as at 31 March 2015.

RELATED PARTY TRANSACTIONS

Please refer to the paragraph headed “Related party disclosures” in note 27 of the Accountants’ Report set out in Appendix I to this document.

Please also refer to the section headed “Connected transactions — Non-exempt continuing connected transactions — Framework subcontracting agreement entered between the Company and Kin Kwan” in this document for details of the arrangement between the Group and Kin Kwan.

The Directors are of the view that the related party transactions were conducted at arm’s length and on normal commercial terms, and would not distort the Group’s results of operations over the Track Record Period or make the Group’s historical results over the Track Record Period not reflective of the Group’s expectations for the Group’s future performance.

MARKET RISKS

The Group is, in the normal course of business, exposed to market risks such as interest rate risk, credit risk and liquidity risk. The Group’s risk management strategy aims to minimise the adverse effects of these risks on the financial performance.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and deposit paid for a life insurance policy. The Group currently does not have an interest rate hedging policy.

The Group is also exposed to cash flow interest rate risk mainly in relation to bank balances, variable rate bank borrowings and bank overdrafts, which are arranged at floating rate.

The Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on HIBOR and Hong Kong Prime Rate arising from the Group’s bank borrowings and bank overdrafts.

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Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the amount of bank balances, bank borrowings and bank overdrafts outstanding at the end of the reporting period was outstanding for the whole year/period. A 50 basis points (2013: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on bank balances, variable rate bank borrowings and bank overdrafts had been 50 basis points (2013: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015 would decrease/increase by approximately HK\$16,000, HK\$142,000 and HK\$94,000, respectively.

Credit risk

As at 31 December 2013 and 2014 and 31 March 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group is exposed to concentration of credit risk as at 31 December 2013 and 2014 and 31 March 2015 on trade and retention receivables from the Group's top five customers amounting to approximately HK\$17.4 million, HK\$26.2 million and HK\$26.4 million respectively and accounted for 48.6%, 64.2% and 66.3%, respectively, of the Group's total trade and retention receivables. The major customers of the Group are certain reputable organisations. The management of the Group considers that the credit risk is limited in this regard.

Other than concentration of credit risk on trade and retention receivables, the Group has concentration of credit risk on amounts due from a director. As at 31 December 2013 and 2014 and 31 March 2015, amounts due from a director amounted to HK\$2.5 million, HK\$10.7 million and HK\$0.7 million, respectively.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group exposed to concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

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Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group believes that the Group will have sufficient working capital for its future operational requirement.

The Group relies on bank borrowings as a significant source of liquidity. The Group has available unutilised bank borrowing facilities of approximately HK\$12.3 million, HK\$10.1 million and HK\$16.0 million as at 31 December 2013 and 2014 and 31 March 2015, respectively, in which approximately HK\$12.1 million, HK\$9.9 million and HK\$15.8 million respectively, can only be utilised by issuance of performance bond by the bank in relation to building services engineering projects.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk table

| | Weighted average interest rate % | On demand or less than 1 month HK\$'000 | Less than 3 months HK\$'000 | 3 months to 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31.12.2013 HK\$'000 |
|---|--|--|-----------------------------------|-----------------------------------|----------------------------|---|---|
| 31 December 2013 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | — | 7,142 | 7,393 | 194 | — | 14,729 | 14,729 |
| Fixed rate bank borrowings (Note 1) | 3.25 | 2,145 | — | — | — | 2,145 | 2,145 |
| Variable rate bank borrowings (Note 1) | 2.03 | 7,541 | — | — | — | 7,541 | 7,541 |
| | | <u>16,828</u> | <u>7,393</u> | <u>194</u> | <u>—</u> | <u>24,415</u> | <u>24,415</u> |
| | Weighted average interest rate % | On demand or less than 1 month HK\$'000 | Less than 3 months HK\$'000 | 3 months to 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31.12.2014 HK\$'000 |
| 31 December 2014 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | — | 3,952 | 11,563 | 819 | — | 16,334 | 16,334 |
| Amount due to a related party | — | 211 | — | — | — | 211 | 211 |
| Fixed rate bank borrowings (Note 1) | 3.25 | 641 | — | — | — | 641 | 641 |
| Variable rate bank borrowings (Note 1) | 2.03 | 6,922 | — | — | — | 6,922 | 6,922 |
| Bank overdrafts (Note 2) | 7.25 | 586 | — | — | — | 586 | 586 |
| | | <u>12,312</u> | <u>11,563</u> | <u>819</u> | <u>—</u> | <u>24,694</u> | <u>24,694</u> |

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| | Weighted average interest rate % | On demand or less than 1 month HK\$'000 | Less than 3 months HK\$'000 | 3 months to 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31.3.2015 HK\$'000 |
|---|--|--|-----------------------------------|-----------------------------------|----------------------------|---|--|
| 31 March 2015 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | — | 5,171 | 6,516 | 1,075 | — | 12,762 | 12,762 |
| Dividend payable | — | 12,002 | — | — | — | 12,002 | 12,002 |
| Amount due to a related party | — | 313 | — | — | — | 313 | 313 |
| Variable rate bank borrowings (<i>Note 1</i>) | 2.03 | 6,766 | — | — | — | 6,766 | 6,766 |
| | | <u>24,252</u> | <u>6,516</u> | <u>1,075</u> | <u>—</u> | <u>31,843</u> | <u>31,843</u> |

Note:

- (1) Bank borrowings with a repayment on demand clause are included in the 'On demand or less than 1 month' time band in the above maturity analysis. As at 31 December 2013 and 2014 and 31 March 2015, the aggregate carrying amounts of these bank borrowings amounted to approximately HK\$9.7 million, HK\$7.6 million and HK\$6.8 million, respectively. Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows (estimated based on the interest rate at the end of the reporting period) are set out below.

| | Weighted average interest rate % | On demand or less than 1 month HK\$'000 | Less than 3 months HK\$'000 | 3 months to 1 year HK\$'000 | 1 year to 5 years HK\$'000 | Over 5 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-------------------------------|--|---|--------------------------------------|-----------------------------------|----------------------------------|-----------------------------|---|--------------------------------|
| 31 December 2013 | | | | | | | | |
| Fixed rate bank borrowings | 3.25 | 129 | 259 | 1,164 | 644 | — | 2,196 | 2,145 |
| Variable rate bank borrowings | 2.03 | 63 | 127 | 570 | 2,768 | 5,213 | 8,741 | 7,541 |
| | | <u>192</u> | <u>386</u> | <u>1,734</u> | <u>3,412</u> | <u>5,213</u> | <u>10,937</u> | <u>9,686</u> |
| 31 December 2014 | | | | | | | | |
| Fixed rate bank borrowings | 3.25 | 129 | 259 | 256 | — | — | 644 | 641 |
| Variable rate bank borrowings | 2.03 | 63 | 127 | 570 | 2,606 | 4,611 | 7,977 | 6,922 |
| | | <u>192</u> | <u>386</u> | <u>826</u> | <u>2,606</u> | <u>4,611</u> | <u>8,621</u> | <u>7,563</u> |
| 31 March 2015 | | | | | | | | |
| Variable rate bank borrowings | 2.03 | 63 | 127 | 570 | 2,585 | 4,453 | 7,798 | 6,766 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined based on the outstanding interest rate as at the end of each reporting period.

- (2) The bank overdrafts related to a temporary overdraft position of a bank account of the Group as at 31 December 2014, arising from the total amount of cheques issued being higher than the bank balance maintained with that particular bank account as at 31 December 2014. Subsequent to 31 December 2014, the Group had maintained sufficient balance in such bank account before the cheques were deposited by the payees. Since 1 January 2015, bank overdraft had been utilised and no interest thereto had been incurred in relation to such amount.

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DIVIDEND POLICY

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, namely Mr. Wong and Ms. So. 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, interim dividend of approximately HK\$22.0 million was recognised as distribution by Lap Kei to its then shareholders, namely Mr. Wong and Ms. So, of which HK\$10.0 million was settled by offsetting against the amount due from Mr. Wong, with the remaining balance of HK\$12.0 million has been repaid in cash by the Group's internal resources in August 2015.

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 was HK\$12.6 million which had been settled in August 2015.

No dividend is paid or proposed during the year ended 31 December 2013 and the three-month period ended 31 March 2014.

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 distribute 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 following factors:

- the Group's financial results;
- the Group's shareholders' interests;
- general business conditions, strategies and future expansion needs;
- the Group's capital requirements;
- the payment by its subsidiaries of cash dividends to the Company;
- possible effects on liquidity and financial position of the Group; and
- other factors as the Board may consider relevant.

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DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the [REDACTED] might have affected the combined net tangible assets of the Group after the completion of the [REDACTED] as if the [REDACTED] had taken place on 31 March 2015. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Group had the [REDACTED] been completed on 31 March 2015 or at any future dates.

The unaudited pro forma adjusted combined net tangible assets of the Group as at 31 March 2015 is based on the audited combined net tangible assets of the Group as at 31 March 2015 as shown in the Accountants' Report set out in Appendix I to this document and the adjustments described below.

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of the Group prepared on the basis of the notes set out below for purpose of illustrating the effect of the [REDACTED] on the audited combined net tangible assets of the Group as if the [REDACTED] had taken place on 31 March 2015.

| Audited combined net tangible assets of the Group as at 31 March 2015 <i>HK\$'000</i> <i>(Note 1)</i> | Estimated net proceeds from the [REDACTED] <i>HK\$'000</i> <i>(Note 2)</i> | Unaudited pro forma adjusted combined net tangible assets of the Group <i>HK\$'000</i> <i>(Note 3)</i> | Unaudited pro forma adjusted combined net tangible assets of the Group per Share <i>HK\$'000</i> <i>(Note 4)</i> |
|--|---|--|---|
|--|---|--|---|

Based on a [REDACTED] Price
of HK\$[REDACTED] per
[REDACTED] Share

| | | | |
|------------|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
|------------|------------|------------|------------|

Note:

- (1) The audited combined net tangible assets of the Group as at 31 March 2015 is extracted from Accountants' Report as set out in Appendix I to this document.
- (2) The estimated net proceeds from the [REDACTED] are based on [REDACTED] New Shares and the [REDACTED] Price of HK\$[REDACTED] per [REDACTED] Share, respectively, after deduction of the estimated underwriting fees and related expenses to be incurred by the Company and does not take into account of any Shares which may be

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issued upon the exercise of options that 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 mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this document.

- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2015.
- (4) The unaudited pro forma adjusted combined net tangible assets of the Group per Share is calculated based on [REDACTED] Shares expected to be in issue immediately following the completion of the [REDACTED] and the [REDACTED] but takes no account of any Shares which may be issued upon the exercise of the options that 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 mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this document.
- (5) By comparing the valuation of the property interests in the valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited dated 29 May 2015, the valuation surplus is approximately HK\$8,241,000 as compared to the carrying amounts of the Group's property interests as at 30 April 2015, which has not been included in the above combined net tangible assets of the Group. The valuation surplus of the property interests will not be incorporated in the Group's combined financial statements in the future. If the valuation surplus were to be included in the financial statements, an additional annual depreciation charge of approximately HK\$252,000 would be incurred.
- (6) 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 (4) above.

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