

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED] [REDACTED]. These are risks associated with any investments. Some of the particular risks in investing in the [REDACTED] [REDACTED] are outlined in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to invest in the [REDACTED].

BUSINESS OVERVIEW

We are an established contractor in the Hong Kong car park flooring industry. We provide (i) flooring services, which involve the application of proprietary floor coating products for the purpose of providing a colourful, slip-resistance, hard wearing surface that is resistant against water and petrochemicals; and (ii) ancillary services, which include concrete repairing and wall painting work in Hong Kong. Our target segment is the mid to high end customers in the car park flooring market.

Our car park flooring services

We conduct car park flooring work in respect of the new car park in a new construction project, or the old car park in an existing building in a refurbishment project. The following table sets out a breakdown of our revenue during the Track Record Period attributable to new construction projects and refurbishment projects:

	Year ended 31 March			
	2015		2016	
	HK\$'000	%	HK\$'000	%
New construction projects	33,767	78.9	57,322	83.6
Refurbishment projects	9,041	21.1	11,253	16.4
Total	42,808	100.0	68,575	100.0

The following table sets forth a breakdown of our revenue by the amount of contract sums during the Track Record Period.

	FY2015		FY2016	
	Number of contracts	Revenue recognised	Number of contracts	Revenue recognised
	(Note)	(HK\$'000)	(Note)	(HK\$'000)
Above HK\$5 million	3	2,910	6	25,034
Above HK\$2 million to HK\$5 million	12	16,373	17	22,529
Above HK\$1 million to HK\$2 million	14	12,777	15	10,981
Above HK\$0.5 million to HK\$1 million	10	4,942	9	3,030
HK\$0.5 million or below	56	5,806	54	7,001
Total	95	42,808	101	68,575

Note: The number of contracts refers to the number of projects which generated revenue recognised by our Group during the financial year.

The car park flooring projects carried out by us cover car parks located in a vast range of property types. For FY2015 and FY2016, 98.3% and 96.8% of our total revenue were generated from flooring services which are mostly provided for car parks in residential properties, commercial properties, hospitals and hotels. We also provide flooring services, to a much lesser extent, for highways and industrial properties.

SUMMARY

Our customers

We provide services to both the private sector and public sector. We classify public sector contracts as contracts in which the ultimate customer is a government department, statutory body or related organisation, or institutional body. Private sector contracts refer to contracts in which the ultimate customer is in the private sector, such as property developers and incorporated owners. The following table sets forth a breakdown of our revenue classified by sector during the Track Record Period.

	FY2015		FY2016	
	(HK\$'000)	%	(HK\$'000)	%
Private sector	38,441	89.8	64,086	93.5
Public sector	4,367	10.2	4,489	6.5
Total	<u>42,808</u>	<u>100</u>	<u>68,575</u>	<u>100</u>

For FY2015 and FY2016, our direct customers included main contractors, property developers, property management companies and upper tier subcontractors. The table below sets out our revenue by customer type during the Track Record Period:

	FY2015		FY2016	
	(HK\$'000)	%	(HK\$'000)	%
Main contractors	25,559	59.7	57,903	84.5
Property developers	11,187	26.1	4,125	6.0
Property management companies	278	0.7	1,309	1.9
Upper tier subcontractors	5,784	13.5	5,238	7.6
Total	<u>42,808</u>	<u>100</u>	<u>68,575</u>	<u>100</u>

Joint Surplus was our upper tier subcontractor and was one of our top five customers for FY2015. Further information on the relationship between our Group, Mr. Jason Yip and Joint Surplus is disclosed in the section headed “Relationship with Joint Surplus” in this document.

Our subcontractors

We act as either a main contractor or subcontractor when carrying out car park flooring and ancillary works. During the Track Record Period, we outsourced part of our works, such as application of proprietary floor coating products, screeding, and painting of line markings and signage, to subcontractors for the purposes of better allocating our resources, whether or not we acted as a main contractor or a subcontractor.

SUMMARY

Our suppliers

Our suppliers primarily supply the following materials to us: (i) proprietary floor coating products for car park floor coating, screeding and anti-skid surfacing; (ii) cement; (iii) sand; and (iv) shot-blasting beads.

During the Track Record Period, our material costs were approximately HK\$15.0 million and HK\$19.8 million respectively, representing 62.8% and 55.2% of our total costs of sales. For FY2015 and FY2016, the percentage of our aggregate purchases from Supplier A, our largest supplier, was 77.8% and 80.1% for the corresponding periods, respectively, while the percentage of our purchases from our five largest suppliers in aggregate was 97.3% and 97.2%, respectively. For detailed analysis of the reasons for our reliance on Supplier A and the sustainability of our business in view of our reliance, please refer to the section headed “Business – Suppliers and Procurement of Materials – Reliance on major suppliers” in this document. Please also refer to the section headed “Risk Factors – Our business heavily relied upon certain major suppliers for supplying reputable car park floor coating material” in this document for our supplier concentration risk.

Our pricing strategy

Our pricing is determined on a case-by-case basis. Factors that we take into account in determining our fees generally include (i) product specifications; (ii) our customer’s budget; (iii) relationship with our customer; (iv) competition; (v) overall cost in undertaking the project; (vi) expected duration of project; and (vii) prevailing market conditions.

INDUSTRY AND MARKET

According to the Industry Report, for FY2015, we ranked second in the overall car park flooring industry in Hong Kong with a 7.0% market share, and ranked first in the new construction market of car park flooring industry in Hong Kong with a 33.7% market share.

For details of the car park flooring industry and the competitive landscape of the industry, please refer to the section headed “Industry Overview” in this document.

COMPETITIVE STRENGTHS

We believe the following competitive strengths enable us to compete effectively in the car park flooring industry in Hong Kong: (i) we are an established car park flooring contractor in Hong Kong; (ii) we are an approved applicator of the car park floor coating materials preferred by property developers and main contractors in Hong Kong; (iii) our executive Directors and supporting staff have substantial experience in the car park flooring industry; and (iv) we have stable relationship with our key customers and suppliers.

For details, please refer to the section headed “Business – Principal competitive strengths” in this document.

SUMMARY

BUSINESS STRATEGIES

Our principal business objective is to become the largest and most acclaimed car park flooring contractor in Hong Kong. We intend to pursue the following key strategies: (i) expanding our presence in the refurbishment market and provision of ancillary services; and (ii) strengthening our Group’s leading position in the new construction market by improving our overall capacity and project management.

For details, please refer to the section headed “Business – Business strategies” in this document.

USE OF PROCEEDS

We estimate that net proceeds to be received by us from the [REDACTED] (after deducting the listing expenses and related expenses payable by our Company in the aggregate amount of approximately [REDACTED], and assuming an [REDACTED] of [REDACTED] per [REDACTED] [REDACTED], being the mid-point of the indicative [REDACTED] range) will be approximately [REDACTED] million. We intend to apply the net proceeds from the [REDACTED] as follows:

Business strategy	Approximate amount or % of net proceeds
• Expanding our presence in the refurbishment market	[REDACTED]
• Strengthening our Group’s leading position in the new construction market	[REDACTED]
• Repayment of shareholder’s loan	[REDACTED]
• General working capital	[REDACTED]

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, we had 31 contracts on hand with a total outstanding contract value of HK\$52.2 million, among which nine were in progress with total outstanding contract value of HK\$9.4 million, and 22 had yet to commence work with total contract sum of HK\$42.8 million. Out of the 22 contracts that had yet to commence work, two of them were sizeable contracts with contract sum of over HK\$5 million each. These two contracts involve provision of car park flooring works for a new construction project in a residential development on Clear Water Bay Road and a new construction project in a residential and commercial development at Tseung Kwan O.

For details of projects in progress or not yet commenced, please refer to the section headed “Business – Projects in progress or not yet commenced” in this document.

Save as disclosed in the paragraph headed “listing expenses” in this section, Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 31 March 2016 (being the date to which the latest audited combined financial statements of our Group were made up) up to the date of this document.

SUMMARY

SELECTED FINANCIAL INFORMATION

The tables below present the selected financial information of our Group for the Track Record Period, which were set forth under the section headed "Financial Information" in this document and should be read in conjunction with the Accountant's Report in Appendix I to this document.

During the Track Record Period, our revenue were approximately HK\$42.8 million and HK\$68.6 million respectively; whereas profit after tax were approximately HK\$11.1 million and HK\$16.8 million respectively. Our revenue increased by 60.7% or approximately HK\$26.0 million from FY2015 to FY2016 was mainly due to an increase in number of larger contracts secured and completed in FY2016.

Our Summary Combined Statements of Profit or Loss

	FY2015 <i>(HK\$'000)</i>	FY2016 <i>(HK\$'000)</i>
Revenue	42,808	68,575
Cost of sales	<u>(23,944)</u>	<u>(35,917)</u>
Gross profit	18,864	32,658
Other income	43	25
General and administrative expenses	<u>(5,830)</u>	<u>(11,772)</u>
Profit before income tax	13,077	20,911
Income tax expense	<u>(1,991)</u>	<u>(4,114)</u>
Profit after tax for the year	<u><u>11,086</u></u>	<u><u>16,797</u></u>

Our Summary Combined Statements of Financial Position

	As at 31 March	
	2015 <i>(HK\$'000)</i>	2016 <i>(HK\$'000)</i>
Non-current assets	594	482
Current assets	31,210	40,655
Current liabilities	18,131	17,178
Non-current liabilities	11	–
Net current assets	13,079	23,477
Total equity	13,662	23,958

SUMMARY

Our Summary Combined Statements of Cash Flows

	FY2015 <i>(HK\$'000)</i>	FY2016 <i>(HK\$'000)</i>
Operating cash flow before working capital changes	13,893	21,580
Net cash generated from operating activities	18,705	9,566
Net cash used in investing activities	(511)	(453)
Net cash used in financing activities	(2,753)	(11,858)
Net increase/(decrease) in cash and cash equivalents	15,441	(2,745)

Key financial ratios

	FY2015/ As at 31 March 2015	FY2016/ As at 31 March 2016
Gross profit margin	44.1%	47.6%
Net profit margin	25.9%	24.5%
Current ratio	1.7x	2.4x
Quick ratio	1.5x	2.0x
Return on assets	34.9%	40.8%
Return on equity	81.1%	70.1%
Inventory turnover day	84	92
Account receivables turnover day	64	54
Account payable turnover day	101	89

HIGHLIGHTS OF RISK FACTORS

Our Group's business operations are affected by numerous risks and there are risks relating to investment in the [REDACTED]. You should read the entire section headed “Risk Factors” in this document carefully before you decided to invest in the [REDACTED] [REDACTED]. The following highlights some of the risks which are considered to be material by our Directors:

- Our business heavily relies upon certain major suppliers for supplying reputable car park floor coating materials;
- Our future growth is reliant on the continuous development of the property industry in Hong Kong;
- Any economic downturn in Hong Kong may delay refurbishment of car parks in older buildings and will exert cost pressure on tenders which will have an adverse effect on our planned business expansion in the refurbishment sector;
- We have a concentration of customers during the Track Record Period;

SUMMARY

- Our success significantly depends on the key management and its ability to attract and retain additional technical and management staff;
- We may face a shortage in materials and experience project delays if our suppliers fail to supply the quantity and quality of raw materials we need; and
- Introduction and acceptance of new car park floor coating material in Hong Kong with similar characteristics may adversely affect our profit margin.

NON-COMPLIANCE

During the Track Record Period, our Group did not comply with certain applicable laws and regulations including the Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong) and the articles of KMK’s articles of association. Our Directors and our legal counsel consider that such non-compliance incidents do not and will not have any material impact on our Group’s operations and financial position. For details of the non-compliance and internal control measures adopted by our Group, please refer to the section headed “Business – Non-compliance matters of our Group during the Track Record Period and as at the Latest Practicable Date” in this document.

SHAREHOLDER INFORMATION

Upon completion of [REDACTED] and Capitalisation Issue, Sage City (controlling shareholder of the Company) will have [REDACTED]% interest in our Company whereas the [REDACTED] Investors will have an aggregate of [REDACTED]% interest in our Company. Further details of our Group’s shareholding structure upon Listing can be founded in the section headed “History, Development, Reorganisation and Corporate Structure” in this document.

Sage City has undertaken to our Company that it will not dispose any of its existing shareholding in the Company within 6 months from the Listing Date and shall not at any time during the subsequent 18 months’ period dispose of its shareholding which will result in it owning less than 50.1% interest in the Company. In addition, the [REDACTED] Investors have undertaken to the Company that they will not dispose any of their respective interests in the Company within 6 months from the Listing Date.

SUMMARY

LISTING EXPENSES

Based on the [REDACTED] of [REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range as stated in this document), total Listing expenses in relation to the [REDACTED] to be borne by the Company is expected to be approximately [REDACTED] in aggregate. Of the total expected Listing expenses of [REDACTED], [REDACTED] was charged to our profit and loss account in FY2016. As to the remaining [REDACTED], approximately [REDACTED] is expected to be deducted from our equity and approximately [REDACTED] will be charged to our combined profit and loss account in FY2017.

DIVIDEND POLICY

We declared dividends of HK\$6.5 million and HK\$6.5 million in FY2015 and FY2016 respectively. On 20 May 2016, we declared final dividends of HK\$3.5 million in respect of FY2016. The above dividends are expected to be paid prior to Listing from our own internal resources. We currently do not have any predetermined dividend payout ratio and may declare dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividends or recommend any final dividends would require the approval of the Board and depends on at the discretion of our Directors considering our Group's financial results; shareholders' interest; general business conditions, strategies and future expansion needs; possible effects on liquidity and financial position of our Group; and other factors as our Board may consider relevant. There will be no assurance that our Company will be able to declare or distribute any dividends in the amount set out in any plans of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

SUMMARY

[REDACTED] STATISTICS

[REDACTED].....	:	HK\$[REDACTED] to HK\$[REDACTED]
Market capitalisation ⁽¹⁾	:	HK\$[REDACTED] to HK\$[REDACTED]
Shares to be in issue following completion of the [REDACTED] and Capitalisation Issue	:	[REDACTED] Shares
[REDACTED].....	:	[REDACTED] New Shares, representing [REDACTED]% of enlarged share capital of our Company in aggregate
[REDACTED] structure	:	[REDACTED]% in [REDACTED] (subject to reallocation) and [REDACTED]% in [REDACTED] (subject to reallocation)
Unaudited pro forma adjusted combined net tangible assets attributable to the equity owners of our Company per Share ⁽²⁾	:	HK\$[REDACTED] to HK\$[REDACTED]
[REDACTED]	:	[REDACTED] Shares

Notes:

1. The calculation of market capitalisation at the [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately following completion of the [REDACTED] and the Capitalisation Issue.
2. The combined net tangible asset per Share is based on the combined net tangible asset attributable to equity owners of our Company, estimated net proceeds from the [REDACTED] after deduction of the estimated underwriting fees and other related expenses payable by our Company, and [REDACTED] Shares expected to be in issue immediately following completion of the [REDACTED] and the Capitalisation Issue.

REASONS FOR THE LISTING

We believe a listing status would enhance our corporate profile and recognition and reinforce our awareness and image among both our existing and potential customers. It would also generate reassurance amongst our existing customers, suppliers and strengthen our competitiveness in the market. In the context of our planned business expansion of the refurbishment market, a listing could place more confidence amongst a wide customer base to which we aim to pursue in this segment. It would also enable us to convince new suppliers of car park flooring materials to establish business relationship with us and to grant us better terms.

SUMMARY

Prior to the Listing, funding of our business activities was primarily from internally generated cash of our own. In order to seek funding for payment of expenses associated with the Listing exercise prior to the actual listing, we had invited the [REDACTED] Investors to invest in a total of 16.5% interest in our Company for a total consideration of approximately HK\$15.4 million in August 2015. We are currently in discussion with a commercial bank with a view to seeking credit facilities following Listing. Consequently, we believe the [REDACTED] would broaden not only our equity financing alternatives to cover public investors but could also enable us to seek bank financing at more favorable terms to finance our future business needs.

We also consider that a Listing may offer our Company a broader shareholder base which could potentially lead to a more liquid market in the trading of the Shares. With the appointment of our independent board of non-executive Directors, we also believe our internal control and corporate governance practices will be enhanced following the Listing.