

BUSINESS

BUSINESS OVERVIEW

We are an established contractor in the Hong Kong car park flooring industry. 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. Our history can be traced back to 2002. 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.

During the Track Record Period, we provided car park flooring to new car parks in construction projects as well as refurbished flooring of old car parks in existing buildings in refurbishment projects. We act as either a main contractor or subcontractor when carrying out car park flooring and ancillary works. For our role as a main contractor and subcontractor, please refer to the paragraph headed “Our business operations” in this section.

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.

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. 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	
	<i>(HK\$'000)</i>	<i>%</i>	<i>(HK\$'000)</i>	<i>%</i>
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	42,808	100.0	68,575	100.0

The car park flooring projects carried out by us cover car parks located in a vast range of property types. We classify the type of a property by the principal use of the property.

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

	FY2015		FY2016	
	<i>Number of contracts (Note)</i>	<i>Revenue recognised (HK\$'000)</i>	<i>Number of contracts (Note)</i>	<i>Revenue recognised (HK\$'000)</i>
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
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Total	95	42,808	101	68,575
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Note: The number of contracts refers to the number of projects which generated revenue recognised by our Group during the financial year.

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The table below sets out most of our car park flooring projects each with a contract sum of over HK\$2 million and completed prior to the Track Record Period:

Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year	Completion month/year
Residential Development at Cyberport	Subcontractor	Residential	2,970	September 2005	July 2006
Technology centres in Pak Shek Kok	Subcontractor	Commercial	2,300	December 2006	March 2008
Residential Development at Cyberport	Subcontractor	Residential	2,665	July 2008	April 2009
Office development at How Ming Street, Kwun Tong	Subcontractor	Commercial	3,680	June 2008	March 2010
Residential development at Kwu Tung Road, Sheung Shui	Subcontractor	Residential	3,321	December 2009	October 2011
Landmark commercial building at Austin Road West	Subcontractor	Commercial	2,392	August 2010	December 2010
Shopping mall located at Prince Edward Road East	Subcontractor	Residential/Commercial	3,011	November 2010	May 2012
Residential estate at Cloud View Road* (Note 2)	Subcontractor	Residential	2,310	June 2011	November 2013
Residential development located in at Ap Lei Chau Praya Road	Subcontractor	Residential	2,516	April 2011	June 2011
Residential development located at So Kwun Wat	Subcontractor	Residential	2,208	August 2011	March 2012
Residential development located at Hoi Fai Road	Subcontractor	Residential	3,732	March 2012	March 2013
Residential development near Tolo Harbour at Pak Shek Kok	Subcontractor	Residential	4,058	November 2012	August 2013

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Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year	Completion month/year
Office building located at Hoi Shing Road	Main contractor	Commercial	2,200	September 2013	October 2013
Residential development at Ying Ho Road	Subcontractor	Residential	4,033	July 2013	March 2014

Notes:

1. The contract sum refers to the contract amount stated in the original contract.
2. “*” refers to the projects which are refurbishment projects. All other projects in the list above are new construction projects.

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. Please refer to the paragraph headed “Projects in progress or not yet commenced” in this section.

PRINCIPAL COMPETITIVE STRENGTHS

Our Directors believe the following competitive strengths enable us to compete effectively in the car park flooring industry in Hong Kong:

We are an established car park flooring contractor in Hong Kong

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. During our operating history, we completed projects for various types of customers, including main contractors, property developers, property management companies and upper tier subcontractors. We accumulated extensive experience in car park flooring work through the projects undertaken over the years. Our Directors believe that we are reputable within the car park flooring industry and has established long-standing business relationship with a number of main contractors, upper tier subcontractors and property developers in Hong Kong.

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We are an approved applicator of the car park floor coating materials preferred by property developers and main contractors in Hong Kong

Our business relies on the application of reliable proprietary floor coating products. We are able to acquire such products from reputable suppliers due to our long work history with them.

According to the Industry Report, Supplier A and Supplier B are two of the top five major suppliers in the car park flooring industry in Hong Kong. Our Directors believe that Supplier A’s floor coating products are preferred by many end customers in the private and public sector in Hong Kong. During the Track Record Period, we had been invited to tender for 95 projects. Out of these invitations, 35 of them (representing 37%) specified Supplier A’s proprietary floor coating products as the approved materials, and 15 of them (representing 16%) specified Supplier B’s proprietary floor coating products as the approved materials.

We have been appointed by Supplier A as its approved applicator authorised to distribute and apply its full range of products in Hong Kong since 2011 and such authorisation has been extended to June 2025. In addition, the Group was appointed as its sole distributor in Hong Kong, the PRC and Macau since 2005 for its anti-skid epoxy coating products designed for anti-skid surfaces, such as highways, roads and ramps. In 2015, Supplier A further appointed us as its “preferred applicator” in Hong Kong and extended the authorised territory to Macau and the PRC. Despite the fact that we currently do not have any business in the PRC and Macau, we believe that Supplier A has extended our authorised territory so that we may assist them in expanding their business in those territories in the future. We also received Supplier A’s “Asia No. 1 Customer” award in 2015 and “No. 1 Applicator across Asia Pacific” award in 2016.

We have been appointed as (i) Supplier B’s sole distributor in Hong Kong, Macau, and the PRC for the sales, marketing and application of its proprietary floor coating products designed for car park decks since 2004 and such authorisation has been extended to December 2025.

Our executive Directors and supporting staff have substantial experience in the car park flooring industry

We are led by executive Directors who have extensive industry knowledge, project management experience and expertise in car park flooring projects. Mr. Kwong, our chairman, has over 30 years experience in the construction industry, and Mr. Yip WM, our executive Director has about 10 years of industry experience. Our site foremen have thorough understanding and knowledge of the car park flooring work.

With the in-depth knowledge of the management team and its experience in the industry, our Directors consider that we have achieved notable success and developed a professional reputation in the car park flooring industry. Our Directors believe that our skilled employees are valuable assets to us. Please refer to the section headed “Directors, Senior Management and Staff” in this document for further details of the background and experience of our Directors and senior management team.

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We have stable relationships with our key customers and suppliers

We have established stable business relationships with our key customers and suppliers. Our business relationship with our top five customers for each of FY2015 and FY2016 ranges from one year to 12 years. Our business relationships with most of our top five customers have lasted for more than five years. Likewise, our business relationship with our top five suppliers for each of FY2015 and FY2016 ranges from one year to 10 years. Our Directors are of the view that our operating history, together with our stable relationships with our customers, and suppliers will increase our recognition and visibility in the market and enable us to attract potential business opportunities.

BUSINESS STRATEGIES

Our principal business objective is to become the largest and the most acclaimed car park flooring contractor in Hong Kong. We intend to achieve our business objective by pursuing the following key strategies:

1. Expanding our presence in the refurbishment market and provision of ancillary services

Given the vast business opportunity in the refurbishment market, our Group intends to leverage on our reputation in the car park flooring industry to grow our market share and expand our presence in the refurbishment sector.

For FY2015 and FY2016, we derived revenue of approximately HK\$33.8 million and HK\$57.3 million respectively from services provided for new construction projects, and approximately HK\$9.0 million and HK\$11.2 million respectively from services provided for refurbishment projects. Our Group will target those residential/commercial projects of larger scale which are likely to offer higher contract sum and enhance our Group's job portfolio. We also plan to expand our customer base by expanding our ancillary services such as wall painting services in car parks.

We plan to recruit three sales and marketing staff to focus their sales efforts on the refurbishment segment, mainly to identify and follow up of new business opportunities, establish business relationship with key industry players, and bid for tenders. In particular, we will place advertisements in property and renovation magazines for consumer market. We will organise seminars for target customers of our refurbishment projects, such as landlords, incorporated owners and property management companies. We plan to acquire an office property with a GFA of about 1,600-1,700 sq.ft. in Kowloon West to provide a venue for conducting such seminars and feature a showroom for our potential customers and to assist us in the marketing of our services to both existing and new customers and in raising our profile amongst customers. Our Directors consider that the new office will also (i) cater for our expanding staff; (ii) mitigate the risk of possible substantial increases in rental expenses; (iii) mitigate the risk of early termination or non-renewal of our lease by the relevant landlord; (iv) ensure the continuity of the operation of our business; and (v) reduce transaction with our connected person.

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2. Strengthening our Group’s leading position in the new construction market

According to the Industry Report, for FY2015, we were leading the new construction market of car park flooring industry in Hong Kong. In order to increase our market share and strengthen our competitive position in the new construction market, we intend to:

- Strengthen our sales and marketing efforts and accordingly our Group’s brand awareness within the industry.

Our Directors consider that a stronger public awareness would enable our Group’s future development. The car park flooring projects are largely awarded through competitive tender process. Customers would compare price, job reference, financial resources and also the reputation of the bidding contractors. Therefore, on one hand, our Group will continue to focus on the quality of works and services rendered to the customers. On the other hand, we intend to take a more pro-active approach in sales and marketing.

In particular, we plan to enhance our sales and marketing efforts such as placing advertisements in construction and engineering magazines, project leads magazines for architects and professional readers. We will also organise and attend more social and industry functions, seminars, luncheon presentations and exhibitions and invite architects and consultancy firms, main contractors and property developers to attend. Our Directors consider them as key market players with market intelligence on the potential projects. Furthermore, we intend to set up an additional sales and marketing team with industry knowledge to explore, pursue and follow up with new business leads, bid for tenders and secure new projects.

- Broaden our product portfolio

Currently our Group provides car park flooring materials which are mostly sourced from Supplier A. As disclosed in the paragraph headed “Reliance on major suppliers” in this section, we plan to expand our supplier base with a view to sustaining long term growth. We intend to continue to approach more suppliers and expand our supplier base. We will work with the new suppliers to arrange product training for our staff. Our Directors consider that we could therefore effectively reduce our reliance on the major suppliers, and also be able to expand our product portfolio to cater for different preferences and requirements of the potential customers.

- Improving our overall capacity and project management efficiency

- (i) Strengthening of our manpower and capacity

Our Directors believe that our Group’s future success depends largely on the quality and capability of our project team. In view of the promising prospect of the industry and to cope with our expansion plans, we intend to strengthen our overall capability by hiring two more project managers with minimum of five years’ experience in the construction industry to monitor the overall site operation and quality, one assistant quantity surveyor and two site foremen with relevant qualification and experience and a number of supporting staff.

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(ii) Acquisition of additional machineries

To cope with our business development plans to undertake more projects, we will purchase additional machineries and equipment such as shot-blasting machines, screeding machines and light weight goods and passenger vehicles. These aforesaid equipment and motor vehicles will amount to approximately HK\$[REDACTED] and will be financed by the proceeds from the [REDACTED]. We believe the acquisition of additional machineries, together with recruitment of additional workers, will allow us to (i) enhance quality control by performing the works with our own employees; (ii) enhance our overall efficiency of workflow; and (iii) improve our overall capacity to take on more projects.

(iii) Enhancement of our project management efficiency

Our Group will also invest in project management tools for improvement of management efficiency. We intend to invest in enhancement of our accounting system and operation system for more efficient project monitoring, cost estimation and cost control, to achieve cost savings by streamlining our operation processes.

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OUR BUSINESS OPERATIONS

We are principally engaged in the provision of (i) flooring services; and (ii) ancillary services, including 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.

Flooring services

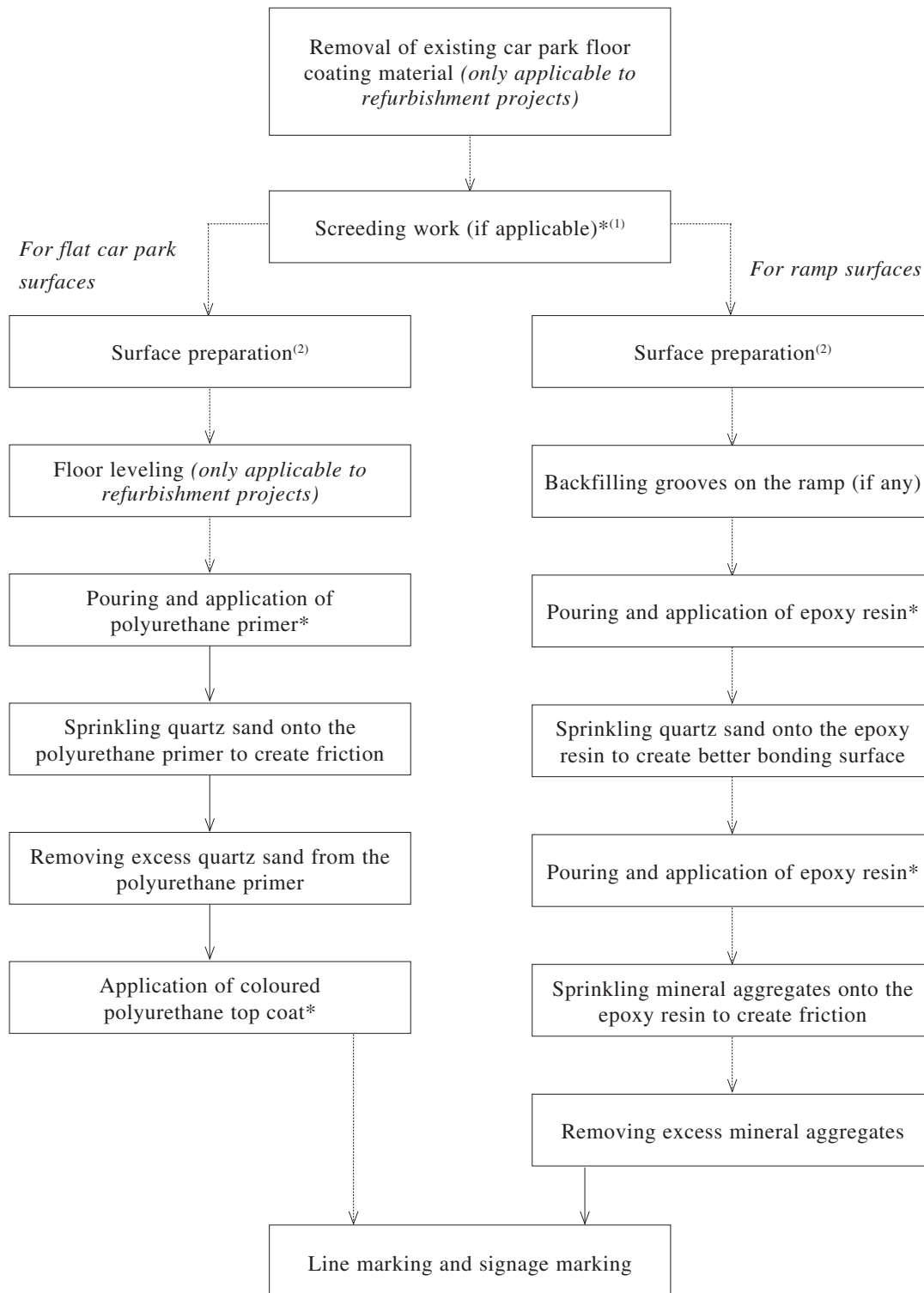
We provide car park flooring work to new car parks in a construction project, and refurbish flooring of the old car parks in an existing building in a refurbishment project. From our experience, refurbishment projects usually take longer time to complete than new construction projects as refurbishment work is usually conducted on a phased basis and additional procedures like removal of existing floor coating material and floor leveling are involved, and very often special-purpose machines, such as scarifying machines and large grinding machines are required. For FY2015 and FY2016, 98.3% and 96.8% of our total revenue were respectively 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.

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	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
New construction projects	33,767	78.9	57,322	83.6
Refurbishment projects	9,041	21.1	11,233	16.4
Total	42,808	100.0	68,575	100.0

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For illustration purpose, a simplified flow diagram of the key work procedures involved in a typical car park flooring project is outlined as below:



Notes: 1. “*” refers to the processes in which we use flooring materials supplied by Supplier A or Supplier B.

2. Surface preparation works will only be conducted by our own employees and will not be subcontracted out; whereas, all other key work procedures in the flow diagram above are usually conducted by our subcontractors.

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Our car park flooring services involve the application of proprietary car park floor coating products for the purpose of providing a colourful, slip-resistance, hard wearing car park decking surface that is resistant against water and petrochemicals like petrol, diesel, and brake fluids.

Prior to the application of proprietary car park floor coating products, surface preparation has to be conducted in order to satisfy the relevant surface requirements for applying the coating products. Surface requirements generally include that the surface should be free of cracks and voids, has a smooth finish, and meet certain dryness level.

Photos of the key work procedures involved in the application of proprietary floor coating products on flat car park surfaces

- (i) Screeding – Application of the screed layer with automated screeding machine



- (ii) Surface preparation – shot-blasting treatment



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- (iii) Surface preparation – repairing surface cracks



- (iv) Surface preparation – substrate defects remedial work



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- (v) Application of primer



- (vi) Sprinkling quartz sand onto the primer to create friction



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- (vii) Removing excess quartz sand from the primer



- (viii) Application of coloured top coat



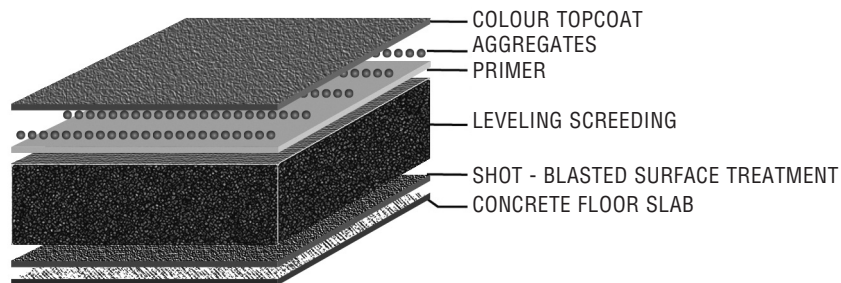
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(ix) Line marking and signage painting



Depending on specific characteristics of the site and our customers’ demands, we may be required to conduct screeding work and anti-skid surfacing work (for ramp surfaces) as part of our car park flooring procedures.

Screeding involves the pouring of a thin layer of material over a suitably prepared and adequately strong concrete base in order to form a leveled, fast-drying, and high-strength underlayment for application of car park floor coating materials. The leveling screed provides early high strength and resistance to traffic.



A typical screed layer comprises cement, sand, screed additive and water. The screed additive is added to accelerate the drying procedure and improve the workability of the screed layer. The key procedures of screeding generally include (i) preparation of the concrete sub-floor to meet specific requirements and to ensure that it is structurally sound, clean, and free from dirt and oil which might impair adhesion of the screed; (ii) application of primer on the prepared concrete surface to ensure smoothness; (iii) mixing of cement, sand, screed additive and water in a mixer to form the screed layer; (iv) application of the screed layer at the required thickness using a screeding machine; and (v) full curing to enable vehicle flow, which takes about five to 10 days.

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Anti-skid surfacing work involves the application of proprietary floor coating products on car park ramp surfaces to provide an anti-skid and wearing surface resistance by improving the friction on those surfaces. When applied with coloured aggregates, it can also be used as part of beautification works. As part of our flooring services, we also provide anti-skid surfacing work for roads to enhance the braking performance.

Ancillary services

During the Track Record Period, other than flooring services, we also provided ancillary services comprising (i) concrete repairing work; and (ii) wall painting work, which are usually associated with our car park flooring projects. For each of FY2015 and FY2016, revenue attributable to ancillary services amounted to approximately HK\$0.7 million and HK\$2.2 million respectively, representing 1.7% and 3.2% of our total revenue, respectively.

The following table sets out a breakdown of our revenue by work type during the Track Record Period:

	FY2015 <i>HK\$'000</i>	FY2016 <i>HK\$'000</i>
Flooring services	42,062	66,367
Ancillary services	746	2,208
Total	<u>42,808</u>	<u>68,575</u>

(i) Concrete repairing work

Concrete repairing work involves the injection of pressurised chemicals such as epoxies and polyurethanes to repair concrete structural cracks and prevent water leakage through such cracks. We provide concrete repairing services to both car parks and non-car parks, such as public roads, tunnels and building structures. During the Track Record Period, our concrete repairing contracts were primarily awarded by the same group of customers who engaged us for car park flooring services.

(ii) Wall painting work

We may be engaged to undertake wall painting work associated with our car park flooring projects.

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Our work as subcontractor or main contractor

We act as either a main contractor or subcontractor when carrying out car park flooring works and ancillary works. During FY2015 and FY2016, we acted as main contractor in 24 and 20 projects and we acted as subcontractor in 71 and 81 projects, respectively.

When we are engaged as a main contractor, we are fully responsible for the overall management and implementation of the flooring project. We are required to adhere to the contract obligations, including ensuring that the flooring project is completed on time and within budget. We maintain third party liability insurance to cover, among others, the liability of our subcontractors and us. Please refer to the paragraph headed “Insurance” in this section for further details. As a main contractor, we are required to furnish the Registrar of Construction Workers with reports relating to registered construction workers employed by us or our subcontractors. Further, if the project sum is over HK\$1 million, we are required to pay a levy to the Pneumoconiosis Compensation Fund Board and the Construction Industry Council. Please refer to the section headed “Regulatory Overview” in this document for further details of the regulatory requirements.

When we are engaged as a subcontractors to provide subcontracting services for a main contractor, the scope of our services is expected to provide will be detailed in the subcontracting agreement between the main contractor and us. Please refer to the paragraph headed “Principal terms of our contracts” in this section.

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, to our lower tier subcontractors for the purposes of better allocating our resources, whether or not we acted as a main contractor or a subcontractor. This enables us to obviate the need for keeping a large workforce under permanent employment, thereby giving us the flexibility to deploy our resources in a more cost effective way.

We only engage subcontractors to conduct works that are relatively simple, such as screeding work, line marking work and application of proprietary floor coating products. We provide our subcontractors with screeding machines, screed mixers and grinding machine, to assist them in the relevant work process. In order to control the quality of our car park flooring services, flooring surface preparation works are only conducted by our employees, as they are more complex and are crucial to the smooth application of proprietary floor coating products.

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PROJECTS UNDERTAKEN BY OUR GROUP

Projects awarded to us typically represent part of a new construction or refurbishment project. Such projects can be generally categorised into public sector projects or private sector projects. 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. Within the category of public/private sector, our projects can be further categorised by property type, as the car park flooring projects carried out by us cover car parks located in various types of properties. We classify property type by the nature of the principal use of the property. For FY2015 and FY2016, our direct customers included main contractors, property developers, property management companies or offices, and upper tier subcontractors. During the Track Record Period, most of our contracts were awarded by main contractors.

The table below sets out our revenue by type of property during the Track Record Period:

	FY2015		FY2016	
	(HK\$'000)	%	(HK\$'000)	%
Private⁽¹⁾				
Residential ⁽²⁾	19,213	44.9	41,266	60.2
Residential/commercial	5,813	13.6	1,633	2.4
Commercial	12,040	28.1	20,118	29.3
Others ⁽³⁾	1,375	3.2	1,068	1.6
<i>Sub-total</i>	<u>38,441</u>	<u>89.8</u>	<u>64,085</u>	<u>93.5</u>
Public				
Residential	248	0.6	–	–
Residential/commercial	–	–	1,203	1.8
Commercial	3,023	7.1	1,000	1.5
Others ⁽⁴⁾	1,096	2.5	2,287	3.2
<i>Sub-total</i>	<u>4,367</u>	<u>10.2</u>	<u>4,490</u>	<u>6.5</u>
Total	<u><u>42,808</u></u>	<u><u>100.0</u></u>	<u><u>68,575</u></u>	<u><u>100.0</u></u>

Notes:

1. 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.
2. The type of a property is categorised by the nature of the principal use of the property.
3. Other private contracts include those related to hotels and industrial properties.
4. Other public contracts include those related to hospitals and highways.

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For further details, please refer to the section headed “Financial Information” in this document for analysis of our revenue.

Projects completed during the Track Record Period

The following table sets forth the flooring projects with a contract sum of over HK\$2 million that were completed by us during the Track Record Period:

Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year	Completion month/year	Amount of revenue recognised during the Track Record Period	
						FY2015 (HK\$'000)	FY2016 (HK\$'000)
Commercial development at Chong Yip Street, Kwun Tong	Main contractor	Commercial	2,512	February 2015	April 2015	1,721	791
Commercial development at a shopping mall in Tsuen Wan ^{*(2)}	Subcontractor	Commercial	9,611	May 2015	February 2016	Nil	8,698
Commercial and residential development at lot 177 at Sheung Shui	Subcontractor	Residential/ Commercial	2,080	July 2014	April 2015	1,750	12
Technology centres in Pak Shek Kok	Subcontractor	Commercial	6,178	November 2013	April 2015	1,784	792
Commercial development at Hung Luen Road, Hung Hom	Subcontractor	Commercial	3,112	November 2015	March 2016	Nil	4,110
Residential development at Hung Hom Bay	Subcontractor	Residential	2,292	November 2015	March 2016	Nil	2,049

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Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year	Completion month/year	Amount of revenue recognised during the Track Record Period	
						FY2015 (HK\$'000)	FY2016 (HK\$'000)
Residential development at Pak Shek Kok, Tai Po	Subcontractor	Residential	9,976	June 2015	December 2015	Nil	11,972
Commercial development on Shing Yip Street, Kwun Tong	Main contractor	Commercial	2,293	November 2014	April 2015	2,179	115
Retirement Housing development on Tanner Road, North Point	Subcontractor	Residential	3,340	May 2013	October 2015	Nil	3,520
Residential development at Tseung Kwan O	Subcontractor	Residential	4,884	March 2014	February 2015	4,391	Nil
Residential development on Tsing Luk Street	Subcontractor	Residential	2,506	December 2014	May 2015	Nil	2,510
West rail Tsuen Wan West station property development	Subcontractor	Residential	3,000	December 2012	June 2014	1,853	85
Commercial development on Tsun Yip Street, Kwun Tong	Main contractor	Commercial	3,097	January 2015	March 2015	2,942	155
Residential and commercial development on Tuen Mun Heung Sze Wui Road	Subcontractor	Residential/ Commercial	6,557	March 2013	June 2014	617	680

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Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year	Completion month/year	Amount of revenue recognised during the Track Record Period	
						FY2015 (HK\$'000)	FY2016 (HK\$'000)
Residential development at Tung Chung Town Lot No. 37	Subcontractor	Residential	4,414	December 2014	November 2015	Nil	5,020
Commercial development on Ko Chiu Road, Tong Yuen Street, Yau Tong	Subcontractor	Commercial	2,855	August 2012	October 2014	199	Nil

Notes:

1. The contract sum refers to the contract amount stated in the original contract.
2. “*” refers to the projects which are refurbishment projects. All other projects in the list above are new construction projects.

Projects in progress or not yet commenced

The following table sets forth the flooring projects that were in progress or not yet commenced as at the Latest Practicable Date.

Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement month/year/ Expected commencement month/year	Expected completion month/year	Amount of revenue recognised during the Track Record Period	
						FY2015 (HK\$'000)	FY2016
Sha Po North residential development	Subcontractor	Residential	5,044	Commenced in June 2015	July 2016	Nil	2,701
Commercial and residential development at Tai Po	Subcontractor	Residential/ commercial	1,846	Commenced in November 2015	September 2016	Nil	1,203
Commercial development on On Kwan Street	Main contractor	Commercial	1,580	Commenced in December 2015	June 2016	Nil	860
Residential development on Ko Shan Road, Hung Hom	Subcontractor	Residential	2,036	Commenced in December 2015	August 2016	Nil	1,692
Residential development on Argyle Street, Kowloon	Subcontractor	Residential	2,197	Commenced in December 2015	July 2016	Nil	1,386

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Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement	Expected completion month/year	Amount of revenue recognised during the Track Record Period (HK\$' 000)	
				month/year/ Expected commencement month/year		FY2015	FY2016
Commercial development at Tsim Sha Tsui* ⁽²⁾	Subcontractor	Commercial	845	Commenced in October 2015	December 2016	Nil	234
Residential development at Ap Lei Chau	Subcontractor	Residential	1,730	Commenced in January 2016	July 2016	Nil	452
Hotel development on Tin Sau Road, Tin Shui Wan; New Territories	Main contractor	Hotel	2,360	Commenced in February 2016	August 2016	Nil	834
Office building on Heung Yip Road	Main contractor	Commercial	863	Commenced in February 2016	August 2016	Nil	390
Residential and commercial development in Tseung Kwan O	Subcontractor	Residential/ commercial	1,755	Commenced in May 2016	September 2016	Nil	Nil
Office building on On Kwan Street, Shek Mun	Main contractor	Commercial	1,500	Commenced in May 2016	November 2016	Nil	Nil
Residential development in Ho Man Tin	Subcontractor	Residential	4,956	Expected to commence in July 16	October 2016	Nil	Nil
Residential and commercial development on Tung Yuen Street, Yau Tong	Subcontractor	Residential/ commercial	996	Expected to commence in July 2016	November 2016	Nil	Nil
Residential development on High Street, in Sai Ying Pun	Subcontractor	Residential	473	Expected to commence in September 2016	December 2016	Nil	Nil
Residential development in Tseung Kwan O	Subcontractor	Residential	1,672	Expected to commence in June 2016	October 2016	Nil	Nil
Residential development on Jones Street, Tai Hang	Subcontractor	Residential	1,209	Expected to commence in August 2016	December 2016	Nil	Nil
Residential development at Pak Shek Wo, Sai Kung	Subcontractor	Residential	456	Expected to commence in June 2016	July 2016	Nil	Nil

BUSINESS

Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement	Expected completion month/year	Amount of revenue recognised during the Track Record Period	
				month/year/ Expected commencement month/year		(HK\$' 000)	
						FY2015	FY2016
Hotel development in Hung Hom	Subcontractor	Hotel	1,548	Expected to commence in August 2016	November 2016	Nil	Nil
Residential and commercial development in Tseung Kwan O	Subcontractor	Residential/ commercial	1,936	Expected to commence in July 2017	November 2017	Nil	Nil
Residential development in Tseung Kwan O	Subcontractor	Residential	3,387	Expected to commence in August 2016	November 2016	Nil	Nil
Residential development in Tseung Kwan O	Subcontractor	Residential	1,011	Expected to commence in June 2016	September 2016	Nil	Nil
Hotel building in Mong Kok* ⁽²⁾	Subcontractor	Hotel	210	Expected to commence in September 2016	November 2016	Nil	Nil
Residential development in Yuen Long	Subcontractor	Residential	1,616	Expected to commence in September 2016	November 2016	Nil	Nil
Office building in Kwun Tong* ⁽²⁾	Subcontractor	Commercial	1,804	Expected to commence in July 2016	October 2016	Nil	Nil
Residential development at Kau To, Sha Tin	Subcontractor	Residential	915	Expected to commence in October 2017	December 2012	Nil	Nil
Proposed office development on Tai Yau Street, San Po Kong	Main contractor	Commercial	2,300	Expected to commence in June 2016	December 2016	Nil	Nil

BUSINESS

Project location	Group's capacity	Property type	Contract sum (HK\$'000) ⁽¹⁾	Commencement	Expected completion month/year	Amount of revenue recognised during the Track Record Period	
				month/year/ Expected commencement month/year		(HK\$' 000)	
						FY2015	FY2016
Residential development on Clear Water Bay Road	Subcontractor	Residential	5,429	Expected to commence in July 2016	November 2016	Nil	Nil
Residential and commercial development at Tseung Kwan O	Subcontractor	Residential/ commercial	6,599	Expected to commence in June 2017	August 2017	Nil	Nil
Office building on Sheung Yuet Road, Kowloon Bay ^{*(2)}	Subcontractor	Commercial	1,398	Expected to commence in July 2016	September 2016	Nil	Nil
Residential and commercial development Tseung Kwan O	Subcontractor	Residential/ commercial	1,330	Expected to commence in July 2016	October 2016	Nil	Nil
Hospital on Pok Fu Lam Road ⁽²⁾	Subcontractor	Hospital	279	Expected to commence in November 2016	February 2017	Nil	Nil

Notes:

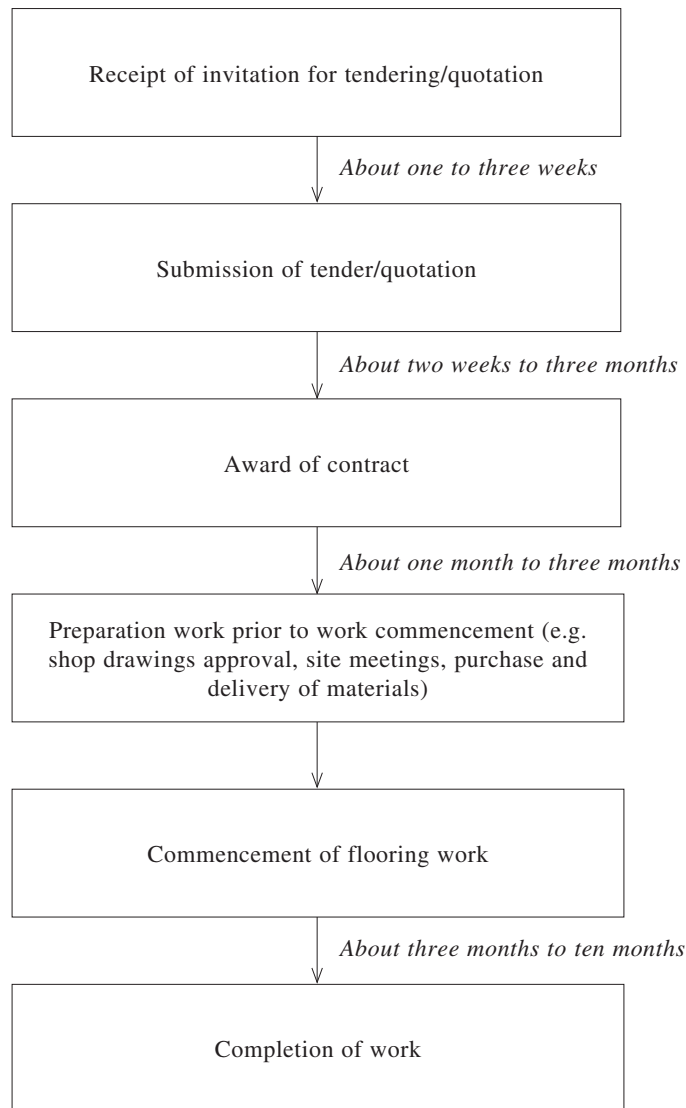
1. The contract sum refers to the contract sum stated in the original contract.
2. “*” refers to the projects which are refurbishment projects. All other projects in the list above are new construction project.

As at the Latest Practicable Date, we had 31 contracts on hand, 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.

BUSINESS

OPERATING PROCEDURES

Our operational procedures for flooring services, whether for new constructions or refurbishment, generally involve identifying potential projects, tendering, project implementation, payment, defects liability period and warranty period. The following diagram illustrates the general operational procedures and approximate time required for each major step involved in our typical flooring project:



BUSINESS

Identifying potential projects

We actively explore new business opportunities by keeping track of any new construction projects in Hong Kong through our existing business network, and sending our marketing materials to the architect who is responsible for the products and services specifications of the new construction project. If the relevant architect and developer accept our proposal, our proposed products and services specifications will form part of the developer’s tender package for the main contractor, and subsequently part of the main contractor’s tender package for the car park flooring subcontractor, giving us a competitive advantage in bidding the relevant tender. For details on our marketing activities, please refer to the paragraph headed “Sales and marketing” in this section.

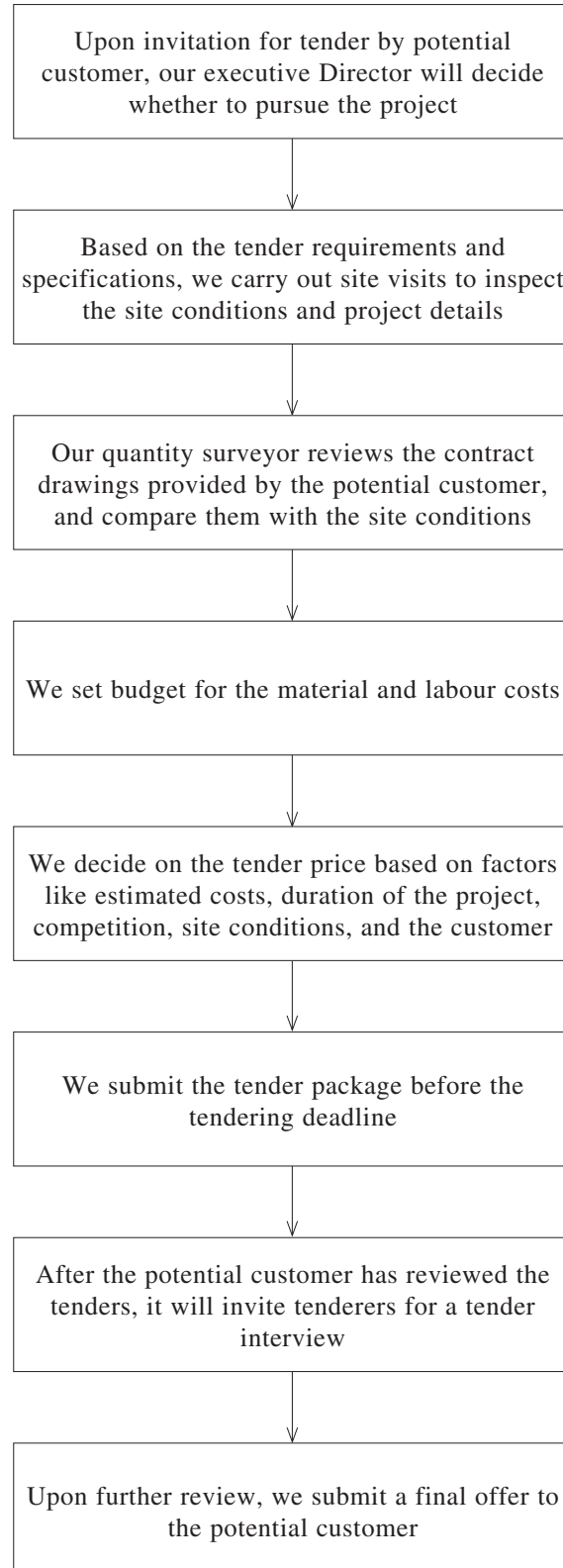
As a result of our sales and marketing activities, our projects are mainly obtained through (i) invitation to tender by main contractors and developers; and (ii) invitation for quotation by property developers, upper tier subcontractors, and property management companies. For FY2015 and FY2016, 60% and 83% of our revenue were derived from flooring projects obtained through tendering. Our direct customers are primarily the main contractors of new construction or refurbishment projects. We act as a subcontractor for these projects and work under the supervision of the main contractor. Our Group were not required by our customers to make pre-qualification submission during the Track Record Period, which was because we had been one of our customers’ approved tenderers.

Our executive Director, Mr. Kwong, reviews the tenders, taking into consideration, among others, the project requirements, feasibility of the project, timetable of the project, and our financial and human resources, and makes the final decision of whether to pursue a project, and if so, tender price to be submitted.

BUSINESS

Tendering process

The following diagram illustrates the major steps involved in our general tendering process:



BUSINESS

Our executive Director, Mr. Kwong, carries out the tender procedure, which involves issuing tender queries, pricing the tender and submitting tender documents. The tender submission process may take anywhere between one to three weeks. Upon receipt of the tender documents, we will conduct a more in-depth review into the feasibility of the proposed project and will arrange for site visits to inspect the site conditions and further understand the project details.

Prior to deciding the tender price, our quantity surveyor reviews the contract drawings provided by the potential customer against the actual site conditions, especially for lump sum fixed price contracts, under which we are required to execute all the specified details and quantities of works as stated in the contract at the fixed agreed price. The details checked by our quantity surveyor include the area of the site, surface area of ramps, and site constraints. For FY2015 and FY2016, 66.3% and 78.2% of our revenue were derived from provisional price contracts subject to remeasurement, and 33.7% and 21.8% of our revenue were derived from that projects were lump sum fixed price contracts. For details on our contracts, please refer to the paragraph headed “Principal terms of our contracts” in this section.

In pricing a tender, we will make reference to, among others, tender specifications, relationship with the potential customer, competition, market conditions, estimated costs, and duration of project. In particular, tender specifications are a major factor influencing our pricing. Customers normally specify a few brands of floor coating materials which are approved for the flooring work, but the tenderers may also propose to use equivalent products in their tender proposals.

Potential customers are not bound to accept the lowest or any tender bids offered. According to the Industry Report, in choosing which car park flooring service provider to engage, the quality of coating materials and flooring work is the most important criteria that potential customers would consider when it comes to choosing a service provider for car park flooring. A service provider’s experience and job references, and its brand and reputation are the second most important factors. For details, please refer to the section headed “Industry Overview” in this document. Based on our experience, our Directors believe that potential customers usually prefer tender proposals based on floor coating products that are specified in the tenders.

For tenders that specify Supplier A’s or Supplier B’s proprietary floor coating products as the approved materials, we have a competitive advantage as we are Supplier B’s sole distributor in Hong Kong for its proprietary car park floor coating product, and Supplier A’s “preferred applicator” in Hong Kong. Please refer to the paragraph headed “Principal competitive strengths” in this section. Alternatively, if the tender specifications favour floor coating products that are generally or exclusively distributed by our competitors, we will be inclined to set a lower price in order to compete for the tender.

During the Track Record Period, 37% of the total number of tenders for which we had been invited to submit specified Supplier A’s proprietary car park floor coating products as an approved material, 16% tender specifications received by us specified Supplier B’s proprietary car park floor coating products as an approved material, with the balance being tenders specifications that were in favour of other car park floor coating products or did not specify any particular coating material as approved material.

After the tender is submitted, we may be invited for tender interview to meet with the potential customer, during which the parties will negotiate for a final price. We may negotiate with the relevant supplier for a best offer before we submit a final offer to the potential customer.

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If the tender is awarded to us, a formal contract will be executed between the customer and us. The time from when a tender has been submitted to when a tender is awarded can vary from two weeks to three months.

Tenders submitted during the Track Record Period

During the Track Record Period, most of our projects were obtained through a process of competitive bidding in which we believe our customers will also obtain tenders from other subcontractors. To the best of our belief, in a typical tendering process, at least five companies drawn from our customer’s approved subcontractors list will be invited to submit a tender. The following table sets out the number of tenders submitted, number of successful tenders and our success rate during the Track Record Period:

	Year ended 31 March	
	2015	2016
Number of tenders submitted	51	44
Number of successful tenders	37	33
Success rate (%)	73%	75%

Commencement of project

Once our engagement is confirmed, we commence the implementation of the project by: (i) forming a project team; (ii) planning and arranging the required machinery to be delivered to the work site; (iii) procuring and arranging with suppliers for the required materials for the project; and (iv) negotiating and finalising on the subcontracting arrangement.

Forming a project team

Depending on the scale and complexity of the project, our project team generally comprises the following key personnel: project director, quantity surveyor, foreman, and general labourers engaged for surface preparation work. The project director is responsible for the overall operation of the project, including reviewing customer requirements, allocating resources, and handling variation orders documents for any critical changes. We will closely monitor the progress of the project on a continuous basis and will ensure statutory requirements are complied with. Our project team will oversee the project on site and report to our executive Directors on the project status and identify any problems that need to be resolved from time-to-time. Set out below are some general duties performed by the major roles of the project team:

(i) Quantity surveyor

Our quantity surveyor is responsible for preparing shop drawing submissions immediately before work commencement, inspecting the work progress on site to prepare payment applications to customers, and verifying progress payment and final account certifications from customers. The quantity surveyor’s duties also include measuring the work done by our subcontractors and assessing their interim payment requests.

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(ii) Foreman

Our foreman is responsible for coordinating, providing guidance and supervising our workers and subcontractors on site, including briefing them on the handling and application of floor coating or other materials. The quantities of materials on site are also regularly checked by our foreman to minimise wastage of materials. Our foreman’s duties also include conducting regular inspections on the work progress and making good any defects before handing the site over to our customer.

Planning and arranging machinery

We possess shot-blasting machines, screed mixer, screeding machines, and grinding machine to perform our floor coating projects. Shot-blasting machine is used for surface preparation. Screed mixer is used for mixing cement, sand and screed additive, and screeding machine is used for the levelling out and application of screeding products. Grinding machine is used in refurbishment projects for removing existing car park floor coating materials. Our machines have to be maintained on a regular basis. For FY2015 and FY2016, we incurred repair and maintenance cost of approximately HK\$0.2 million and HK\$0.2 million.

Our shot-blasting machines and screeding machines are purchased from our suppliers in the United Kingdom respectively. Our project director is responsible for determining the types of machinery to be used and the logistics of delivery of machinery.

Procurement and management of materials

We are responsible for the procurement of flooring materials for the project. The key materials that we purchase for our projects include proprietary floor coating products, cement, sand, and shot-blasting beads. In line with our tender or contract awarded and our progress plan, our quantity surveyor will calculate quantities of materials required based on approved shop drawings, and our administrative department will place orders with our approved suppliers based on the terms negotiated by our executive Director.

Supplier A delivers flooring materials directly to our work sites, while Supplier B delivers the flooring materials to the container port, which are then transported to our work sites by third party transport companies. When materials are delivered to sites, the site foreman will inspect the material model and quantity, conduct sampling check on the conditions of the materials and acknowledge receipt of the materials.

Depending on the credit standing of our customers, we may obtain deposit amounting up to 30% of the overall contract sum and material-on-site payment amounting up to 40% of the overall contract sum.

We acquire material on a project-by-project basis in accordance with the project specifications relying on our quantity surveyor’s estimation of the amount of materials needed. Further, for projects involving larger sites exceeding 4,000 sq. m., we usually purchase materials by work stage. As such, we generally do not retain a large amount of materials as inventory. In some rare occasions, the purchased materials are temporarily stored off-site until required to be used.

BUSINESS

For details on our suppliers and inventories, please refer to the paragraph headed “Suppliers and procurement of materials” in this section.

Subcontracting arrangements

During the Track Record Period, our Group outsourced part of our works, such as application of proprietary floor coating products, screeding, and painting of line markings, to subcontractors for the purposes of better allocating our resources, whether or not we acted as a main contractor or a subcontractor. We are responsible to our customers for the works performed in a project, including those carried out by our subcontractors. Our customers generally consent to our engagement of subcontractor for a project and do not specify which subcontractor should be engaged by us.

Our subcontractors include local sole proprietors and partnerships as well as limited companies which generally have the available skills and manpower to perform the subcontracted activities. We have not entered into any long term agreement with our subcontractors, as we usually enter into subcontractor contracts on a project-by-project basis. Our business relationship with our top five subcontractors during the Track Record Period ranges from about one year to 11 years.

In order to control and ensure the quality and progress of the works of subcontractors, we typically engage subcontractors from our approved list. Selection of the subcontractors is normally based on, among other things, their past performance and experiences, and size of workmen team. The performance of the subcontractors is regularly monitored by our site foreman, who supervises the progress and inspects the quality of works carried out. We provide our subcontractors with screeding machines, screed mixers and grinding machines to assist them in the relevant work process.

For details on our subcontracting arrangements, please refer to the paragraph headed “Subcontracting” in this section.

Implementation of project

Monitoring and quality control

Once a project commences, our project management team will monitor the progress, costs incurred and performance of the project in all respects to ensure that it meets the customer’s requirements and is completed in accordance with the time schedule and in compliance with all statutory requirements including those in connection with health and safety matters. Our site foreman regularly provides verbal progress reports to our executive Director during weekly meetings. In addition, project meetings between our project team and our customers are held to assess and review the progress of the project and to resolve any problem which may arise.

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Our subcontractors are not allowed to subcontract any parts of our projects without our permission. Our site foreman will supervise the work of our workers and subcontractors on site on a regular basis, and brief them on the handling and application of floor coating or other materials. During the course of project operation, we hold meetings with the subcontractors’ representatives to discuss work progress of the relevant projects. Supplier A will also provide training to our employees and our subcontractors if there are any issues in relation to their products, in order to ensure that their proprietary floor coating products are used in an appropriate and cost-effective manner. Please also refer to the paragraph headed “Quality assurance” in this section.

Customer inspection

Our customers’ representatives will carry out sight inspection on an on-going basis and approve our work done upon completion of the job. In executing government or large scale private projects, the on-site inspector of the developers, namely the clerk of works, would inspect the works of the main contractor from time to time.

Progress payment

We recognise revenue derived from flooring works and ancillary services contracts based on the stage of completion of the contracts. We usually submit payment applications to our customers on a monthly basis. The monthly cut-off date of such payment applications may be specified in the contracts. Our customers will certify the value of the works completed, and arrange settlement in respect of the portion of works. Our customers will usually retain up to 10% of each progress payment and up to a maximum limit of 5% of the contract sum as retention money for the project. For details on retention money, please refer to the paragraph headed “Final settlement and retention money” in this section.

The credit terms in relation to the settlement of progress payments due from our customers vary from contract to contract. For both new construction and refurbishment projects, credit terms may make reference to the cut-off date, with settlement typically 30 days from such date, depending on the terms and conditions of the contracts.

Similarly, we normally pay our subcontractors on a monthly basis with reference to the value of the works done. Our subcontractors are required to submit a request for payment to us each month before the relevant payment application cut-off dates set by our customers. Once our quantity surveyor has verified the subcontractor’s request against the actual works done by the subcontractors, we will prepare payment applications to our customers and we will release the relevant proportion of the subcontracting sum to our subcontractors. During the Track Record Period, we did not withhold any retention money from our subcontractors.

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Variation Order

Depending on the terms and conditions of the contracts, our customers may give instructions to vary the contract works which we are generally obliged to follow. Such variation orders could be addition, modification or cancellation of the contract works. The value of the variations, in particular the addition or modification of contract works, is generally ascertained with reference to the rates and prices specified in the contract for analogous work and/or the prevailing market rate, and then the total contract sum of the relevant project is adjusted accordingly. For any contract works to be cancelled, the total contract sum of that project is to be deducted according to the rates and prices of such contract works as stated in the agreed quotation.

Additional works conducted by us under variation orders include remedying substrate defects of surface conditions of the work sites, using more expensive floor coating products for ramp surfaces that were not specified in the tender, and altering parking spaces and line markings.

The progress of the additional works under the variation orders will generally be reflected in our payment application of the relevant month submitted to our customer. Payment for the works done under the variation orders will also be subject to the customer’s certification process, and is usually made by our customers on a monthly basis.

Final settlement and retention money

Once we have completed the entire project to the satisfaction of our customer, we will agree with our customer the final settlement which will take into account the measurement of all our work done, retention money, and value of variation orders (if any). The final settlement usually accounts for 10% of the total contract sum. It usually takes three months for our customers and us to reach agreement of the final account.

In our contracts with our customers, there is usually a contract term for the customers to withhold retention money from us. The amount of retention money for each project is usually 5% of the total contract sum. The terms and conditions in relation to the release of retention monies vary from contract to contract. Depending on the terms of the contracts, the retention money will be released to us upon a pre-agreed period, which may range from 12 months to 24 months after completion of work.

As at 31 March 2016, our retention receivables, which represent the retention monies held by the customers for contracted works, amounted to approximately HK\$2.9 million. We expect all these retention monies to be released immediately after the expiry of the time period pre-agreed between our Group and our customers according to the respective contracts.

Defects liability period, warranty period and technical support

Most of our contracts contain a defects liability period, during which we are responsible to rectify any work defects. This period typically lasts for 12 months from completion of our works in the project.

BUSINESS

On top of the defects liability period, our customers would normally require us to provide a warranty to them or the ultimate customer, depending on the terms of the contracts, for a pre-agreed time period, during which we guarantee the satisfactory performance of the relevant works completed against any faulty workmanship and materials. The length of the warranty periods granted for projects completed during the Track Record Period ranged from three years to 12 years, depending on the nature and scale of the projects. The warranty period generally commences from the date of the certificate of practical completion. The terms of the warranties vary from contract to contract. Nonetheless, our Group generally undertakes to make good any defective work at our own expense within the warranty period, and that the warranty shall not cover any defects arising from causes like acts of god, deterioration of existing substrate, and deliberate misuse.

We do not maintain a similar length of defects liability period from our subcontractors, but our subcontractors are generally required to maintain and rectify defects in their works within one year after they complete the subcontracted work. Our major suppliers, Supplier A and Supplier B, also provide product guarantee for a period of 10 years.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material claim from its customers in respect of any work defects, and therefore we have not made any provision for repair and maintenance costs in respect of defective works during the defect liability period.

Apart from dealing with defective works during the defects liability period and warranty period, we also provide technical support to our customers by answering their verbal queries in relation to the finished surfaces, such as those related to line markings and stains.

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. For details on our tender pricing, please refer to the paragraph headed “Tendering process” in this section.

BUSINESS

CUSTOMERS, SALES AND MARKETING

For FY2015 and FY2016, our revenue from flooring works contracts amounted to approximately HK\$42.1 million and HK\$66.4 million, representing 98.3%, and 96.8% of our total revenue for the corresponding periods, respectively. On the other hand, revenue from ancillary services amounted to approximately HK\$0.7 million and HK\$2.2 million, representing 1.7%, and 3.2% of our total revenue for the corresponding periods, respectively.

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	
	<i>(HK\$'000)</i>	<i>%</i>	<i>(HK\$'000)</i>	<i>%</i>
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	42,808	100.0	68,575	100.0

During the Track Record Period, all of our customers were located in Hong Kong and all of our service fees were denominated in Hong Kong dollars. The number of customers with projects generating revenue for FY2015 and FY2016 was 52 and 51, respectively.

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Major customers

Set out below is a breakdown of revenue by our top five customers:

FY2015

Customer	Background of customer	Our role	Payment method	Revenue <i>HK\$'000</i>	As a % of total revenue for the year	Nature of principal services provided	Years of relationship with us as at the Latest Practicable Date
Customer A	Property developer in Hong Kong	Main contractor	By cheque	8,145	19.0	Flooring services	3
Joint Surplus Limited	Private limited company in Hong Kong engaged in the provision of car park flooring, waterproofing and moving work	Subcontractor	By cheque	4,500	10.5	Flooring services	5
Customer C	Private limited company in Hong Kong engaged in engineering work	Subcontractor	Bank transfer	4,391	10.3	Flooring services	2
Customer D	An engineering group headquartered in Hong Kong and ultimately owned by a company listed in Hong Kong	Subcontractor	By cheque	4,293	10.0	Flooring services	8
Customer E	Private limited company in Hong Kong engaged in engineering work, including site formation and clearance, demolition work and structural alteration and addition works	Subcontractor	By cheque	2,434	5.7	Flooring services	6
TOTAL				23,763	55.5		

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FY2016

Customer	Background of customer	Our role	Payment method	Revenue <i>HK\$'000</i>	As a % of total revenue for the year <i>HK\$'000</i>	Nature of principal services provided	Years of relationship with us as at the Latest Practicable Date
Customer F	A main contractor and a subsidiary of a construction company listed in Hong Kong	Subcontractor	By cheque	12,089	17.6	Flooring services	12
Customer G	Company mainly engaged in infrastructure and construction as main contractor and is a subsidiary of a company listed in Hong Kong	Subcontractor	By cheque	10,610	15.5	Flooring services	1
Customer H	A private limited company and subsidiary of an international business conglomerate based in Hong Kong and principally engaged in property and real estate development	Subcontractor	By cheque	7,003	10.2	Flooring services	2
Customer I	Company engaged in design and construction of private building works, and is a subsidiary of a company listed in Hong Kong	Subcontractor	Bank transfer	5,421	7.9	Flooring services	9
Customer J	Company engaged in construction of buildings and construction of civil engineering works, a subsidiary of a company listed in Hong Kong	Subcontractor	By cheque	4,463	6.5	Flooring services and concrete repairing services	9
TOTAL				<u>39,586</u>	<u>57.7</u>		

Our Directors consider that we have established good relationship with our customers.

BUSINESS

Transactions with Joint Surplus

Joint Surplus was one of our top five customers for FY2015. Mr. Jason Yip, a member of our senior management and a substantial shareholder, was a shareholder of Joint Surplus from during the period from 1 April 2011 to 26 July 2015. Mr. Jason Yip was also a director of Joint Surplus during the period from 1 April 2011 to 13 July 2015. Meanwhile, Mr. Jason Yip was engaged by us as a consultant on a part-time basis during the period from 1 April 2009 to 31 July 2015. For further details, please refer to the section headed “Relationship with Joint Surplus” in this document.

Save as disclosed above, none of our Directors, their associates or any Shareholders, which to the best knowledge of our Directors own more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in the five largest customers during the Track Record Period. None of our five largest customers during the Track Record Period was also our supplier or subcontractor. All of our top five customers are Independent Third Parties.

Reliance on our major customers

For the two years ended 31 March 2015 and 2016, the percentage of our aggregate revenue attributable to our largest customer was 19.0% and 17.6% for the corresponding periods, respectively, while the percentage of our total revenue attributable to our five largest customers in aggregate was 55.5% and 57.7%, respectively.

The number of flooring works and ancillary services projects that can be executed by us simultaneously are limited by our resources including the capacity of our machinery and project management team. Thus, during the Track Record Period, our strategy had been to primarily focus on deploying our resources towards competing for new construction projects, instead of refurbishment projects which demand more time and resources. This has, in turn, inevitably resulted in a concentration of customers during the Track Record Period.

Notwithstanding the above, we have demonstrated over the Track Record Period that we have the ability to compete for flooring works and ancillary services contracts from new customers. Provided that we have sufficient operation capacity in the future, we intend to serve a larger number of customers and projects. In this regard, we intend to strengthen our leading position in the new construction market and expand our presence in the refurbishment market. We also will improve our overall capacity and project management efficiency. For details, please refer to the paragraph headed “Business strategies” in this section.

BUSINESS

Principal terms of our contracts

As our business operates on a non-recurring and project-by-project basis, during the Track Record Period and up to the Latest Practicable Date, we have not entered into any long-term master contract with any of our customers. Our Directors consider that such arrangement is in line with the industry practice. Generally, the terms of our contracts with our customers mirror the terms of the contract between the main contractors and the ultimate customers, such as the property developers and property management offices, as the case may be. Below are some of the generalised terms included in most of our contracts:

Principal contract terms	Description
Project information	Project information generally shows the location of work site and nature of our works to be performed.
Contract sum	<p>The contract sums of our contracts are either lump sum fixed price or provisional price subject to re-measurement. Under the lump sum fixed price contract, we are required to execute all the specified details and quantities of works as stated in the contract at the fixed agreed price. With regard to provisional price contract, the customers usually supply us a reference schedule showing the items, brief description and quantities of works to be performed by us. Based on the specifications, quantities and agreed unit rates, we are able to estimate the provisional contract sum.</p> <p>If there is any variation of works, the valuation of which is determined based on quantity of works and the unit rates of such works under our bills of quantities. Please also refer to the paragraph headed “Variation order” in this section.</p>
Types and scope of works	This term identifies types and scope of works in detail which we are engaged to perform under the contracts. We are responsible for the procurement of flooring materials for the project. For details please refer to paragraph headed “Our business operations” in this section.
Contract period	The number of days within which we have to complete our contract works commencing from the date when we are allowed to get our works started at the sites. The contract period varies depending on the project size and complexity.

BUSINESS

Term of payment	We generally charge our customers on monthly basis by sending payment application together with a written statement showing quantities and details of works having been performed in the preceding month for our customers’ certification and payment arrangement. In respect of the final settlement, we usually issue final account showing the amount we are entitled to for our customers’ verification. Please also refer to the paragraphs headed “Progress payment” and “Final settlement and retention money” in this section.
Bills of quantities	It refers to types, specifications and quantities of works under the project. It also states the unit rates and estimated price of each particular type of works in the quotation documents.
Liquidated damages	If we fail to complete our contract works before a stipulated time, we may, subject to the extension of time approved by our customers, need to pay liquidated sum to our customers pursuant to the contracts. The amount of compensation is usually a fixed amount per day.
Defects liability period and warranty period	After completion of our works, we are responsible for fixing and remedying our defective works identified by our customers for a predetermined period which is normally not more than 12 months after completion of work. On top of the defects liability period, our customers would normally require us to provide a warranty to them or the ultimate customer. Please also refer to the paragraph headed “Defects liability period, warranty period and technical support” in this section.
Retention monies	The amount of retention money for each project is usually 5% of the total contract sum. Our customers will usually retain up to 10% of each progress payment as retention money for the project. The terms and conditions in relation to the release of retention monies vary from contract to contract. Depending on the terms of the contracts, the retention money will be released to us upon a pre-agreed period, which may range from 12 months to 24 months after receipt of final settlement in respect of the project. Please also refer to the paragraph headed “Final settlement and retention money” in this section.

BUSINESS

Credit policy

Based on the activity carried out in the preceding month, we submit to our customers a payment application for a progress payment which generally includes the estimated fee for our work done. Once our customer is satisfied with our progress payment application, an interim payment certificate will be issued to us usually within one month. Our customer will settle the progress payment with us by cheque and will retain a certain percentage of our fee as retention money. The credit terms in relation to the settlement of progress payments and final payments due from our customers vary from contract to contract. For both new construction and refurbishment projects, credit terms are usually 30 days. Our customers will usually retain up to 10% of each interim payment and up to a maximum limit of 5% of the total contract sum as retention money. Please refer to the paragraphs headed “Progress payment” and “Final settlement and retention money” in this section.

We maintain a register of progress payment applications submitted and payment certificates issued by the customers to ensure all corresponding payment applications have been followed up with our customers on a timely basis. Upon the due date of retention receivables, our staff will follow up with our customers by contacting the customers directly and re-issue the invoices if necessary. For details on our receivables turnover days, please refer to the section headed “Financial Information” in this document.

We determine the provision of impairment of trade receivables on a case-by-case basis. We determine specific allowance for doubtful debts on a case-by-case basis having regard to a number of factors, including length of business relationship, the ageing of the receivable balances, results of the follow-up procedures, customers’ past reputation, and their financial strength and repayment history as well. During the Track Record Period, we incurred total bad debt of approximately HK\$0.2 million during FY2015 due to a customer which was wound up in FY2015.

Seasonality

Our Directors believe that the flooring works industry in Hong Kong does not exhibit any significant seasonality.

Sales and marketing

During the Track Record Period, we secured new businesses mainly through invited tenders, which is considered by our Directors to be attributable to our sales and marketing activities and well-established presence in the flooring industry in Hong Kong.

Apart from invitations by customers, we also actively explore new business opportunities by checking for any new construction projects in Hong Kong through our existing business network, and sending our marketing materials to the architect who is responsible for the products and services specifications of the new construction project. If the relevant architect and developer accept our proposal, our proposed products and services specifications will form part of the developer’s tender package for the main contractor, and subsequently part of the main contractor’s tender package for the car park flooring subcontractor, giving us a competitive advantage in bidding the relevant tender. Tender specifications are a major factor influencing our pricing and competitiveness in bidding for a tender. For details on tender specifications and tender pricing, please refer to the paragraph headed “Tendering process” in this section.

BUSINESS

Our executive Director Mr. Kwong, is actively involved in our sales and marketing activities, including the active liaison with existing and potential customers for securing new businesses, and discussing the engagement terms and flooring approach. Direct invitations from customers for quotations may be addressed to Mr. Kwong directly, in which case the invitations will be handled by him. We also rely on word-of-mouth by providing quality service for each of our projects to attract customers’ referrals and to retain our customers in the future. Our Directors consider that our past performance will continue to support our reputation and business in the industry.

SUPPLIERS AND PROCUREMENT OF MATERIALS

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. Most of our purchases are denominated in Hong Kong dollars and they are mainly for flooring materials manufactured in Malaysia and the UK.

We generally order materials on a project-by-project basis. Further, for projects involving larger sites exceeding 4,000 sq. m., we usually purchase materials by work stage. We did not enter into any long-term contract with, or commit to any minimum purchases from, our suppliers. The terms of our supply contracts include the type of materials, price, quantity, payment terms, and expected delivery date. We select suppliers mainly based on: (i) quality of materials; (ii) timeliness of delivery; (iii) previous experience and length of relationship with the supplier; (iv) reputation of the supplier; and (v) product specifications of our contract with the customers. Unless otherwise stated in our agreement with the customer, we usually provide materials for our projects in accordance with the product specifications.

During the Track Record Period, we did not experience any material shortage or delay in the supply of materials that we required. In addition, we did not experience any material fluctuation of prices of materials that we required during the Track Record Period.

During the Track Record Period, material costs were approximately HK\$15.0 million and HK\$19.8 million respectively, 62.8% and 55.2% of the Group’s total costs of sales.

Our Directors estimate the material cost when we price our tenders or quotation for the floor coating work projects. Any deviation between the estimated material costs at the time we submit the tenders or quotations and the actual costs to complete the projects may affect the Group’s financial performance and profitability. For projects resulting from an award of tender and involving the use of Supplier A’s proprietary floor coating products, we usually have a verbal pre-bid agreement with Supplier A. As for Supplier B, it sells proprietary floor coating products to us based on a standard price list. This enables us to take into account our overall costs and any anticipated cost arising from the bills of quantities when preparing the tender.

BUSINESS

Major suppliers

Set out below is a breakdown of our total purchases made with the major suppliers:

FY2015

Supplier	Background of supplier	Credit terms and payment method	Purchase amount <i>HK\$'000</i>	As a % of total purchase of material for the year	Type of purchases	Years of relationship with us as at the Latest Practicable Date
Supplier A	Manufacturer of high quality epoxy, polyurethane and methyl methacrylate resin flooring and car park coating solutions, headquartered in the U.K., with commercial sales office in Hong Kong, and across Europe, the Americas, Asia and Africa. Its ultimate holding company is listed on the New York Stock Exchange.	120 days by cheque	12,044	77.8	Proprietary floor coating products for car park flooring, screeding, and anti-skid surfacing work	6
Supplier B	UK-based manufacturer of flooring adhesives and floor preparation products for the flooring industry	120 days by cheque	2,222	14.4	Proprietary floor coating products for car park flooring work	10
Supplier C	Local partnership engaged in construction material business	Monthly payment by cheque	380	2.5	Sand	10
Supplier D	Limited liability company in Tianjin City engaged in the processing and marketing of mineral products, building material, metal material and non-metallic mineral products	Payment in advance by telegraphic transfer	206	1.3	Coloured aggregates	5
Supplier E	Private limited company in Hong Kong engaged in the supplies of paint	Monthly payment by cheque	200	1.3	Paint	10
TOTAL			15,052	97.3		

BUSINESS

FY2016

Supplier	Background of supplier	Credit terms and payment method	Purchase amount <i>HK\$'000</i>	As a % of total purchase of material for the year	Type of purchases	Years of relationship with us as at the Latest Practicable Date
Supplier A	Manufacturer of high quality epoxy, polyurethane and methyl methacrylate resin flooring and car park coating solutions, headquartered in the U.K., with commercial sales office in Hong Kong, and across Europe, the Americas, Asia and Africa. Its ultimate holding company is listed on the New York Stock Exchange.	120 days by cheque	17,157	80.1	Proprietary floor coating products for car park flooring, screeding, and anti-skid surfacing work	6
Supplier B	UK-based manufacturer of flooring adhesives and floor preparation products for the contract flooring industry	120 days by cheque	2,428	11.3	Proprietary floor coating products for car park floor coating	10
Supplier C	Local partnership engaged in construction material business	Monthly payment by cheque	753	3.5	Sand	10
Supplier E	Private limited company in Hong Kong engaged in the supplies of paint	Monthly payment by cheque	277	1.3	Paint	10
Supplier F	Private limited company in Hong Kong engaged in trading of building materials	In advance by cheque	220	1.0	Sand and cement	1
TOTAL			20,835	97.2		

Our Directors consider we established long and stable working relationships with its suppliers, and up to the Latest Practical Date, there had been no major disagreements with any of our suppliers.

None of the Group’s Directors, their associates or any Shareholders, which to the best knowledge of our Directors own more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in the five largest suppliers during the Track Record Period. None of our five largest suppliers during the Track Record Period is also our customer. All of our top five suppliers are Independent Third Parties.

BUSINESS

We usually settle trade payables by cheque or telegraphic transfer upon receiving invoice of the suppliers. While Supplier A and Supplier B grant us credit terms of up to 120 days, some suppliers require us to make full payment upon confirmation for materials ordered.

Our suppliers generally do not offer a product guarantee period to us, except for Supplier A and Supplier B, our major suppliers of proprietary floor coating products, who provide product guarantee for a period of 10 years.

Reliance on major suppliers

For the two years ended 31 March 2015 and 2016, 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. Please refer to the section headed “Risk Factors – Our business heavily relies upon certain major suppliers for supplying reputable car park floor coating material” in this document for our supplier concentration risk.

Supplier A is a company incorporated in Hong Kong in 1996. It is the Hong Kong sales office of a manufacturer headquartered in the United Kingdom, and is principally engaged in the manufacturing of high quality epoxy, polyurethane and methyl methacrylate resin flooring and car park coating solutions. Supplier A’s ultimate holding company is listed on the New York Stock Exchange. Its brand was established in 1982. It has 32 sales offices across Europe, the America, Asia and South Africa. During the Track Record Period, we sourced epoxy based and polyurethane based proprietary floor coating products from Supplier A for our car park floor coating services, screeding services, and anti-skid surfacing work. We have been appointed by Supplier A as its authorised applicator to distribute and apply its full range of products in Hong Kong since 2011, and such authorisation has been extended to June 2025. There is no obligation on our part in relation to purchase of floor coating products from Supplier A.

Reasons for reliance on Supplier A

Our Directors are of the view that the reliance is mainly due to the following reasons:

- According to the Industry Report, Supplier A is one of the top five major suppliers in the car park flooring industry in Hong Kong. Our Directors consider that Supplier A’s floor coating products are preferred by many end customers in both the private and public sectors in Hong Kong. During the Track Record Period, 37% of the tender specifications received by us specified Supplier A’s proprietary floor coating products as one of the approved materials.
- To the best of our Directors’ knowledge, Supplier A has an office in Hong Kong with a team of specification staff who market and promote its products to architects, designers, and project teams of developers, and assist them in compiling specifications in their tender packages. Nonetheless, Supplier A is not involved in the direct selling of its materials to end users, and so relies on our network as a distribution channel for the sale of their materials. Our Directors are of the view that Supplier A’s own sales and marketing activities contribute to its market share in the car park floor coating industry in Hong Kong, and ensures a sustainable development of its brand.

BUSINESS

- It is the industry norm for companies like us to rely on few suppliers due to mutual reliance. According to the Industry Report, mutual reliance between floor coating service providers and coating material suppliers is regarded as an industry norm within the car park flooring industry in Hong Kong. Please also refer to the paragraph headed “Mutual reliance” in this section.
- Supplier A can provide timely delivery due to its geographical advantage. As the products sourced by us from Supplier A are manufactured in Malaysia, Supplier A’s lead time between the placement of order and delivery of products would be about three weeks, which is shorter than materials imported from Europe.
- Our Directors consider Supplier A as a competitive, reputable, and reliable proprietary floor coating products supplier that provides speedy and extensive support. We have established business relationship with Supplier A since 2010 and have not encountered any major procurement problems in terms of shortage, delay and pricing. Supplier A has an extensive portfolio of floor coating products with various price ranges to meet diversified demands, including those catered for car park and industrial floor coating, floor coating for service corridors, plant rooms, decorative floor coating for arcades and shop fronts. The credit terms offered to us by Supplier A is 120 days and so is longer than those offered by other floor coating materials suppliers, which may be as short as 30 days.

Sustainability of our business in view of our reliance

(i) Mutual reliance

According to the Industry Report, mutual reliance between floor coating service providers and coating material suppliers is regarded as an industry norm within the car park flooring industry in Hong Kong. This is due to the fact that material suppliers intend to find good applicators of their materials securing sales channels through establishing long-term relationship with coating service providers while coating service providers also prefer using high quality coating materials with their services to assure their customers the delivery of best experience.

Supplier A’s staff is not involved in the actual selling of its materials to end customers. Our Directors believe that it relies on our extensive business network to stimulate sales of its proprietary floor coating products in Hong Kong. Further, the correct handling of proprietary floor coating products is crucial to producing high quality car park flooring work. With our long years of presence and operation in the car park flooring industry, we have built up vast experience in car park flooring services and polished our skills in handling and applying proprietary car park floor coating products. Our Directors believe that our experience and skills are beneficial to Supplier A and vital for enhancing and consolidating its brand name in Hong Kong.

BUSINESS

According to the Industry Report, Supplier A only has only two authorised applicators to distribute and apply its products in Hong Kong. In 2015, Supplier A appointed us as its one and only “preferred applicator” in Hong Kong, extended the authorised territory to Macau and the PRC. It also recognised us as its “Asia No. 1 Customer” in 2015 and “No. 1 Applicator across Asia Pacific” 2016. During the Track Record Period, Supplier A also provided training to our employees and our subcontractors to ensure that their proprietary floor coating products and screeding products are used in an appropriate and cost-effective manner. This reflects Supplier A’s efforts in motivating us to promote its proprietary floor coating products.

Given our established relationship with Supplier A, the mutual reliance between us and the strong sales performance demonstrated during the Track Record Period, our Directors are of the view that it would not be commercially sensible and might be difficult for Supplier A to replace us with other car park flooring applicator of similar size, capability and market position within a period of one to two years.

(ii) Our flexibility in sourcing from alternative suppliers

As we are not bound to make purchases from Supplier A, we maintain flexibility in supplier selection and our Directors confirm that there are alternative suppliers in the market which can supply proprietary car park floor coating products at comparable terms and quantities. If the tender or contract specifications do not specify Supplier A’s proprietary floor coating products as an approved material, given our established presence in the market, our Directors believe that we should not have any practical difficulty in purchasing from these alternative suppliers at comparable prices.

(iii) Plans to improve our supplier network

While we endeavour to maintain our established relationship with Supplier A, our Directors recognise the importance of expanding our supplier base with a view to sustaining long term growth. We will continue to improve our supplier network and foster relationships with potential new suppliers to expand our product portfolios. Nonetheless, our Directors do not have the intention to shift to other suppliers in a rapid and substantive manner, as they consider Supplier A as a competitive, reputable and reliable supplier. Please also refer to the paragraph headed “Reasons for reliance” in this section.

Over the years, we have been approached by various chemical manufacturers from Europe and the PRC seeking for our cooperation in relation to their proprietary floor coating products. We are currently exploring other sources of proprietary car park floor coating products from the United Kingdom. The steps necessary for securing sourcing arrangement from a new supplier include (i) studying the potential supplier’s product range, company history, project references, case histories, and track record performance; (ii) check if it has any local distributors or sole agent in Hong Kong; (iii) review prices, request for samples for trials and mockup; (iv) negotiate the terms and conditions with the new supplier in relation to trial orders, and preliminarily discuss about any long term distribution agreement; (v) soft launch promotion to our existing customers in smaller projects; (vi) monitor the new product’s long term performance, maintenance level, and comments and feedbacks from end customers; (vii) negotiate the terms and conditions of long term distribution agreement with the new supplier. Based on past experience, our Directors estimate that it would take generally six to 12 months to conduct the abovementioned process, assuming that the new supplier can meet our satisfaction in each of the steps involved.

BUSINESS

(iv) Industry landscape and advantages of sourcing from Supplier A

According to the Industry Report, Supplier A is one of the top five major suppliers in the car park flooring industry in Hong Kong. Our Directors are of the view that Supplier A’s floor coating products are preferred by many end customers in both private and public sectors in Hong Kong. During the Track Record Period, 37% of the tender specifications received by us specified Supplier A’s proprietary floor coating products as approved materials. According to the Industry Report, mutual reliance between floor coating service providers and coating material suppliers is regarded as an industry norm within the car park flooring industry in Hong Kong. Flooring service providers prefer using high quality coating materials with their services to ensure that quality service is delivered to their end customers.

Our Directors consider that we will continue to purchase proprietary car park floor coating products from Supplier A, as there are few car park floor coating products suppliers with prices and quality of products comparable with those of Supplier A in the market. We have established a relationship with Supplier A since 2011 and our Directors consider that Supplier A is a competitive, reputable and reliable supplier for proprietary car park floor coating products. For further information on the advantages of sourcing from Supplier A, please refer to the paragraph headed “Reasons for reliance” in this section.

(v) Contingency plan

Our business operations may be hindered substantially if Supplier A terminates supply to us or increases the price of its proprietary car park flooring products, even though our Directors consider it unlikely to occur. Nevertheless, in such case, we will be able to source similar products from Supplier B. We have been appointed as Supplier B’s sole distributor in Hong Kong, Macau, and the PRC for the sales, marketing and application of its proprietary floor coating product designed for car park deck since 2004, and such authorisation has been extended to December 2025. Supplier B is able to provide proprietary car park floor coating materials that are directly comparable to Supplier A’s products in terms of performance, price, terms and conditions, and quantity. Our Directors believe that the customers which are currently using Supplier A’s proprietary car park floor coating products will consider using Supplier B’s products as alternative materials.

In view of the above, our Directors consider that our business will continue to be viable notwithstanding our reliance on major suppliers.

Inventories

As the materials are acquired on a project-by-project basis in accordance with the project specifications, we rely on our quantity surveyor’s accurate estimation of the amount of materials needed. As such, we generally do not retain a large amount of materials as inventory. In some rare occasions, the purchased materials are temporarily stored off-site by us at public godown until required to be used.

Our inventories recorded on our accounts mainly include flooring materials, which amounted to approximately HK\$4.1 million as at 31 March 2015 and approximately HK\$5.9 million as at 31 March 2016.

BUSINESS

SUBCONTRACTING

During the Track Record Period, our Group subcontracted part of our works, such as application of proprietary floor coating products, screeding, and painting of line markings, to subcontractors for the purposes of better allocating our resources, whether or not we acted as a main contractor or a subcontractor. We provide our subcontractors with screeding machines, screed mixer and grinding machines to assist them in the relevant work process while our subcontractors provide their workers for carrying out the work. This enables us to obviate the need for keeping a large workforce under permanent employment, thereby giving us the flexibility to deploy our resources in a more cost effective way. Our subcontractors include local sole proprietors and partnerships as well as limited companies which generally have the available skills and manpower to perform the subcontracted activities.

We only engage subcontractor to conduct works that are relatively uncomplicated, such as screeding work, line marking work and application of proprietary floor coating products. In order to control the quality of our car park floor coating services, surface preparation works (i.e. shot-blasting works and substrate defects remedial works) are only conducted by our employees, as they are more complex and are crucial to the smooth application of proprietary floor coating products.

In a typical subcontracting arrangement, we generally provide machinery and materials to our subcontractors while our subcontractors would provide labours and tools. In general, we determine the amount of subcontracting charges based on (i) the amount of labour resources required from our subcontractors; (ii) the nature of works to be performed; and (iii) the prevailing market conditions.

We have not entered into any long term agreement with our subcontractors, as we usually enter into subcontracting contracts on a project-by-project basis.

Key terms of subcontracting contract

The key terms of the subcontracting contract include price, scope of works, time of performance, arrangement of tools and equipment, safety requirements, and prohibition on the hiring of illegal workers.

Pursuant to the subcontracting contract, we have legal rights to hold our subcontractors liable for any loss and damage suffered by our Group arising from their negligence or misconduct. In addition, our subcontractors are generally required to maintain and rectify defects in their works within one year after they complete the subcontracted work.

We also require our subcontractors to submit their workers’ acknowledgment of receipt of wages along with their monthly payment applications. For information on payment made to our subcontractors, please refer to the paragraph headed “Progress payment” in this section.

Top subcontractors

For each of the two years ended 31 March 2016, the percentage of our total payment to our largest subcontractor amounted to 36.3% and 24.4% of our total subcontracting fees respectively, while the percentage of our total payment to our five largest subcontractors combined amounted to 93.7% and 85.3% of our total subcontracting fees respectively.

BUSINESS

Set out below is a breakdown of our total subcontracting costs paid to our top five subcontractors:

FY2015

Rank	Subcontractor	<i>HK\$'000</i>	<i>%</i>
1	Subcontractor A	2,334	36.3
2	Subcontractor B	1,647	25.6
3	Subcontractor C	1,000	15.6
4	Subcontractor D	640	10.0
5	Subcontractor E	399	6.2
Five largest subcontractors combined		6,020	93.7
All other subcontractors		402	6.3
Total subcontracting costs		6,422	100.0

FY2016

Rank	Subcontractor	<i>HK\$'000</i>	<i>%</i>
1	Subcontractor B	3,179	24.4
2	Subcontractor A	2,797	21.5
3	Subcontractor C	2,796	21.5
4	Subcontractor D	1,333	10.2
5	Subcontractor F	1,002	7.7
Five largest subcontractors combined		11,107	85.3
All other subcontractors		1,906	14.7
Total subcontracting costs		13,013	100.0

None of the Group’s Directors, their associates or any Shareholders, which to the best knowledge of our Directors own more than 5% of the issued share capital of our Company immediately upon completion of the [REDACTED], had any interest in the five largest subcontractors as at the Latest Practicable Date. All of our top five subcontractors are Independent Third Parties.

BUSINESS

Set out below is the background information of our five largest subcontractors during the Track Record Period:

Subcontractor	Principal services provided to us	Location	Year(s) of business relationship as at the Latest Practicable Date
Subcontractor A	Floor coating application works	Hong Kong	10
Subcontractor B	Floor coating application works	Hong Kong	3
Subcontractor C	Screeding works	Hong Kong	5
Subcontractor D	Line marking, floor numbering, and setting out work	Hong Kong	9
Subcontractor E	Floor coating application works and screeding works	Hong Kong	3
Subcontractor F	Concrete repairing	Hong Kong	12

None of our five largest subcontractors during the Track Record Period was also our customer.

Basis of selecting subcontractors

In order to control and ensure the quality and progress of the works of subcontractors, we typically engage subcontractors from our approved list. Selection of the subcontractors is normally based on, among other things, their past performance and experiences, size of workmen team, credit-worthiness, and machinery owned. Based on these factors, we select and maintain a list of approved subcontractors and such list is updated on a continuous basis.

Control on subcontractors

We are liable to our customers for the performance and the quality of work done by our subcontractors. Therefore, our subcontractors are not allowed to subcontract parts of our projects without our permission. We require our subcontractors to follow our in-house rules and our customer’s rules in relation to occupational safety and environmental protection. In general, our project team will carry out supervision on our subcontractors on a continuing basis to monitor their performance and ensure they comply with the contract terms and relevant laws. For details on our monitoring of our subcontractors, please refer to the paragraph headed “Monitoring and quality control” in this section.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, there were no disputes between us and our customers in respect of the quality of work performed by us and our subcontractors, there were no material claims of injuries arising from subcontracting activities, and there was no significant disruption to our projects due to services provided by our subcontractors.

QUALITY ASSURANCE

Our site foreman is responsible for supervising the overall daily activities including those executed by our subcontractors in accordance with the work specifications. In addition, he will monitor the activities and project status and take note of any issues arising from the execution of the project, and report to our executive Directors. Please also refer to the paragraphs headed “Monitoring and quality control” and “Customer inspection” in this section.

Further, we only engages subcontractor to conduct works that are relatively uncomplicated, such as screeding work, line marking work and application of proprietary floor coating products. In order to control the quality of our car park floor coating services, surface preparation works are only conducted by our employees, as they are more complex and are crucial to the smooth application of proprietary floor coating products.

In relation to quality control on materials, when materials are delivered to sites, our site foreman will inspect the material model and quantity, and conduct sampling check on the conditions of the material. Our site foreman also checks the colour, expiry period, and consistency of our proprietary floor coating products against the purchase order immediately before application to the site. In addition, if we enter into a new sourcing arrangement for materials used in our projects, we go through a comprehensive procedure to check the quality of the materials thoroughly. For details, please refer to the paragraph headed “Plans to improve our supplier network” in this section.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints from our customers due to quality issue in relation to works performed by us or by our subcontractors, which is considered by our Directors to be attributable to our effective quality control measures.

OCCUPATIONAL HEALTH AND SAFETY

We have established procedures to provide our workers with a safe and healthy working environment. Our safety system works in the following manner:

- our site foreman conducts regular safety inspections to ensure the works are conducted in a safe and proper manner;
- we require our subcontractors to abide by all applicable laws and regulations, and take safety precautions to prevent the occurrence of accidents at work sites; and
- non-conformities found during site inspections would be rectified immediately and any workers who committed such non-conformities would be warned accordingly.

BUSINESS

In addition, every worker entering the work sites are required to hold the Construction Industry Safety Training Certificate, which ensures that the workers go through on-site safety training provided by the main contractors.

During the Track Record Period and up to the Latest Practicable Date, we did not record any accidents involving work injuries of workers employed by us or workers employed by our subcontractors.

ENVIRONMENTAL MATTERS AND OTHERS

Our Group’s operation is not subject to any environmental requirements in Hong Kong, except the Dangerous Goods Ordinance. Please refer to the section headed “Regulatory Overview” in this document for further information about such laws and regulations.

Some of the works conducted by us are subject to environmental compliance examination under The Hong Kong Green Building Council’s “BEAM Plus” scheme.

As advised by our legal counsel, apart from the licensing requirement under the Dangerous Goods Ordinance we were not subject to any requirement to obtain any permits or approvals for the projects carried out by us during the Track Record Period and up to the Latest Practicable Date. Furthermore, during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance with the applicable laws and regulations relevant to environmental protection on the part of our Group.

COMPETITION

According to the Industry Report, the top five players took up an aggregate market share of 35.9% in the car park flooring industry in Hong Kong in FY2015, with revenue each ranged from approximately HK\$17.8 million to HK\$97.2 million. We contributed to 7.0% in revenue to the car park flooring industry and ranked second among the players in the car park flooring industry in FY2015. According to the Industry Report, in 2015, we were leading the new construction market of car park flooring industry in Hong Kong, as we occupied 33.7% in the new construction segment. With our specialist knowledge and experience, our Directors believe that we are in a competitive position in the car park flooring industry in Hong Kong.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had 19 employees in addition to our two executive Directors and three independent non-executive Directors. All of our employees are stationed in Hong Kong. The following table sets forth a breakdown of the number of our employees by functions.

	Number of employees as at the Latest Practicable Date
Administration and liaison officer	3
Accounting and finance	2
Marketing	2
Foreman	3
Quantity surveying	1
Driver	2
Site worker	6
	<hr/>
Total	19
	<hr/> <hr/>

Relationship with staff

Our Directors consider that we have maintained good relationship with our employees in general. We have not experienced any significant problems with our employees or any disruptions to our operations due to labour disputes nor had we experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period.

Training and recruitment policies

We generally recruit our employees from the open market. We places recruitment advertisements.

We aim to attract and retain appropriate and suitable personnel to serve us. We assess the available human resources on a continuous basis and will determine whether additional personnels are required to cope with our business development.

Our employees are exposed to technical and operational on-the-job trainings and product specifications trainings provided by our suppliers in relation to the performance, characteristics, and handling of proprietary floor coating products and screeding products.

Remuneration policy

We have separate labour contracts with each of our employees in accordance with the applicable labour laws in Hong Kong. The remuneration package we offer to employees includes salary and bonus. In general, we determine employee salaries based on each employee’s qualifications, position and seniority.

BUSINESS

PROPERTY

As at the Latest Practicable Date, we did not own any property and we leased the following property for our operations:

Address	Landlord	Gross Floor Area (sq.ft)	Use of the Property	Tenancy Period	Monthly Rental Expenses
Office J on 11th Floor No.3 On Kwan Street Sha Tin New Territories Hong Kong	Li Chuen Chun and Kwong Wing Yee (Note)	775	Office	Two years commencing on 1 May 2016 and expiring on 30 April 2018 (both days inclusive).	HK\$20,000

Note:

Li Chuen Chun and Kwong Wing Yee are connected persons of our Company. Please refer to the section headed “Continuing Connected Transactions” in this document for further details of our transaction with them.

INTELLECTUAL PROPERTY RIGHTS

(a) Trademarks

As at the Latest Practicable Date, our Group had applied for the following trademark in Hong Kong:

Applicant	Trademark	Application Number	Class	Application Date
Kwong Man Kee Engineering Limited		303629773	2, 19, 37	15 December 2015

(b) Domain names

As at the Latest Practicable Date, we are the owner of the following domain names which as considered by our Directors, are material to the business of our Group:

Name of Registered Owner	Domain Name	Expiry Date
Kwong Man Kee Engineering Limited	kwongmankee.info	5 December 2016
Kwong Man Kee Engineering Limited	kwongmankee.com.hk	29 April 2021
Kwong Man Kee Engineering Limited	kmk.com.hk	29 April 2021

BUSINESS

INSURANCES

Pursuant to section 40 of the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), an employer (including a contractor and a subcontractor) is required to take out a policy of insurance for an amount not less than the applicable amount corresponding to the relevant number of employees as specified in the Ordinance in respect of the liability of the employer. We, as an employer, have taken out the requisite insurance in accordance with such requirements.

Under section 40(1B) of the Employees’ Compensation Ordinance, where a main contractor has undertaken to perform any construction work, and has taken out a policy of insurance for an amount not less than HK\$200 million per event in respect of the liability of the main contractor and the liability of its sub-contractor, the main contractor and its subcontractor insured under the policy shall be regarded as having complied with the relevant requirements of the Employees’ Compensation Ordinance. As such, being a subcontractor or sub-subcontractor in flooring works and ancillary services projects, our liability in respect of the claims from our employees and our subcontractors arising out of and in the course of their employment will be covered by the insurance policy taken out by our main contractor.

In addition, we maintain third party liability insurance to cover, among others, the liability of our subcontractors and us in respect of bodily injuries and property damages, and we maintain insurance coverage against third party liability in relation to the use of our vehicles.

Certain types of risks, such as the risk in relation to product liability, collectability of our trade and retention receivables and liabilities arising from events such as natural disasters are generally not covered by insurance because they are either uninsurable or it is not justifiable to insure against such risks in light of the cost. Please refer to the section headed “Risk Factors – Our insurance claim may be declined by the insurance company or fall outside the scope and/or limit of its insurance coverage which may adversely affect our financials and performance”

Taking into account of the industry practice and the insurance taken out by us, our Directors believe that we had adequate insurance coverage for the operations of our business.

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NON-COMPLIANCE MATTERS OF OUR GROUP DURING THE TRACK RECORD PERIOD AND AS AT THE LATEST PRACTICABLE DATE

Set out below are details of our past material non-compliances during the Track Record Period and up to the latest Practicable Date:

Non-compliance of the Articles of Association of KMK

Particulars of the non-compliance	Reason for the non-compliance	Remedial action	Estimated/actual fine/penalty
Breach of articles 5, 8, 9 and 22 of KMK’s articles of association since 5 February 2013 for having less than two directors; not meeting the quorum of two directors for all directors’ meetings; resolutions passed without a duly called meeting of directors; and not meeting the quorum of two members for all general meetings.	The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time.	<p>An application to the High Court of Hong Kong has been made under Section 570 of the Companies Ordinance (Cap.622) on 3 May 2016 and a court hearing has been scheduled on 22 June 2016 to seek an order to amend and rectify the non-compliance of the articles of KMK. An order is expected to be granted by the Court on 22 June 2016 to convene a general meeting of KMK to rectify all of its previous acts occurring since 5 February 2013 and to amend articles 5, 8, 9 and 22 of the articles of association.</p> <p>The general meeting is expected to be held after an order is granted by the court as mentioned above and all previous acts of KMK will have been rectified and articles 5, 8, 9 and 22 of the articles of association amended accordingly.</p>	As advised by our legal counsel, since KMK is expected to obtain a Court Order to convene a general meeting to amend its articles of association, the breach will be rectified appropriately and all past decisions of the board and resolutions passed at the shareholder’s meetings will be ratified at the said general meeting to be convened and no fine or penalty will be imposed.

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Non-compliance of the Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong) (the “DGO”)

Particulars of the non-compliance and the relevant sections	Reasons for the non-compliance matters	Remedial actions	Estimated/actual fine/penalty
During the Track Record Period, KMK transported and stored some dangerous goods manufactured by Supplier B into a warehouse in Yuen Long which did not have the appropriate licence for storage of dangerous goods.	The breaches were not wilful and were due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time.	KMK has removed all dangerous goods from the warehouse in Yuen Long on 30 April 2016.	As advised by our legal counsel, pursuant to Section 14 of the DGO, the maximum potential liability of KMK and/or its director(s)/Officer(s) is a fine of HK\$25,000 and to an imprisonment for 6 months.
Failure to obtain a licence to store and transport dangerous goods resulting in contravention of Section 6 of the DGO (Cap. 295)		KMK has engaged a licensed dangerous goods warehouse for storage of dangerous goods since 31 May 2016 and all dangerous goods have been transported by workers of the licensed dangerous goods warehouse to the dangerous goods warehouse located in Tuen Mun for storage and to the construction sites.	As advised by legal counsel, since the offence under Section 14 of the DGO is a summary offence (as opposed to an indictable offence), under section 26 of the Magistrates Ordinance, Cap. 227, the time limit for prosecution of any such offence is 6 months from the time (i.e. 30 April 2016) when the matter of such complaint or information respectively arise.
Failure to obtain a licence before hiring workers to transport and store the dangerous goods results in contravention of Section 8 of the DGO (Cap. 295)			Therefore, legal counsel is of the view that KMK and/or its director(s)/ officer(s) will not be prosecuted for any offence under Sections 6 and 8 of the DGO for its business operation after the said 6 months’ limitation period has expired by virtue of section 26 of the Magistrates Ordinance.
			As advised by legal counsel, although there is a risk for KMK and/or its director(s)/officer(s) being prosecuted for its business operation under Section 6 and 8 of the DGO, but given (1) the previous clear record of KMK, (2) the fact that KMK has engaged a licensed dangerous goods warehouse to store and transport its dangerous goods and (3) that it went on its own initiative to make enquiry with the Fire Services Department, our legal counsel opined that the risk for KMK and its director(s) and/or officer(s) being prosecuted is highly unlikely.

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As at the Latest Practicable Date, there had not been any prosecution initiated against our Company or our then or current Directors or KMK or any of KMK's then or current directors, nor had any of them been subject to any re-entry notices or the non-compliances in relation to fine above. Our Directors and our legal counsel consider that the above non-compliance matters shall not have any material impacts on our operations or financial positions. Having considered that the estimated fines and penalties, if applicable, are immaterial, no provisions for the fines have been made by our Directors in our financial statements.

INTERNAL CONTROL MEASURES TO PREVENT THE RECURRENCE OF NON-COMPLIANCE INCIDENTS

It is the responsibility of our Board to ensure that we maintain an effective internal control system to safeguard our shareholders' investments and our assets at all times. In order to continuously improve our Group's corporate governance and to prevent recurrence of the abovementioned non-compliances in the future, our Group has adopted the following measures:

1. With regard to the non-compliance with laws and regulations of Hong Kong, our operations will be reviewed by the Board and our company secretary, and we will seek legal advice from external legal advisers if necessary. Our Directors will be responsible for ensuring that our operations will comply with all the relevant Hong Kong laws and regulations.
2. On 13 June 2016, our Directors attended training sessions conducted by our legal advisers as to the applicable Hong Kong regulations and the GEM Listing Rules law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
3. Our audit committee and Legal Compliance Committee together with our company secretary, Ms. Tse Ka Wing, will be responsible for reviewing and updating our compliance policies and procedures on an annual basis for ensuring that the compliance policies and procedures are up to date in accordance with the regulatory requirements.
4. Regular training given by external legal advisers will be arranged at least annually for all of our Directors, company secretary, financial controller and senior management members so as to discuss and study the relevant regulatory requirements in relation to our responsibilities and duties under the laws and regulations relevant to our business operations.
5. We have engaged Alliance Capital as our compliance adviser upon Listing to advise us on compliance matters in accordance with the GEM Listing Rules.
6. On [24 August 2016], an audit committee was established to implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules, including timely preparation and laying of accounts. The audit committee shall:
 - (i) review our risk management and internal control systems;

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- (ii) discuss the risk management and internal control systems with the management of our Group to ensure that the management has performed its duty to have implemented an effective risk management and internal control system; and
 - (iii) consider the major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management’s response to these findings;
- 7. All of our management and staff are required to report to and/or notify our compliance officer promptly of any non-compliance or potential non-compliance events.
- 8. Meetings and seminars will be arranged for our Directors, members of management and staff on a quarterly basis to discuss and study regulatory requirements and latest updates thereof applicable to our business operations.
- 9. On [24 August] 2016, we established a legal compliance committee (the “**Legal Compliance Committee**”) for the purpose of assisting the Board in overseeing our compliance with laws and regulations relevant to our operations as well as the adequacy and effectiveness of our regulatory compliance procedures and system. It will periodically review our compliance status with the Hong Kong laws after the Listing. The Legal Compliance Committee shall:
 - review the effectiveness of our regulatory compliance procedures and system, which will cover all material procedures, including operational and compliance procedures and risk management functions, and consider the adequacy of resources, staff qualifications and experience, training programmes and budget of our regulatory compliance function;
 - advise the audit committee in overseeing our corporate governance functions;
 - report to the audit committee for any actual or suspected non-compliance issues on a quarterly basis, and engage external professional advisers, such as lawyers and accountants, to assist in the preparation of recommendations for consideration by our audit committee and for further presentation to the Board if considered appropriate;
 - review the effectiveness of our on-going measures to prevent future non-compliance incidents and the internal control measures adopted by the Group and provides updates on the applicable laws related to our business operations with the assistance of external professional parties including independent internal control consultant and external legal advisers from time to time; and
 - We have designated Mr. Yip WM, our executive Director as our safety officer to assist the Board in assessing and managing risks associated with the materials, workers and subcontractors relevant to our operations from time to time to ensure due compliance with laws, rules and regulations in Hong Kong. Our Directors are of the view that the above arrangements will enable our Group to ensure our compliance with the legal and regulatory requirements relevant to the safety of materials, workers and subcontractors in the future.

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10. Our Group will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to our internal controls, risk management and legal compliance when necessary and appropriate.

View of our Directors and the Sponsor

Our Directors consider that the abovementioned internal control measures are adequate and effective having taken into account that (i) our Group has fully rectified all of the non-compliance incidents; (ii) our Group has implemented (or will implement where applicable) the measures to avoid recurrence of the non-compliance incidents as set out in the paragraph headed “Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents”; (iii) there has been no recurring of similar non-compliance incidents since the implementation of such measures; and (iv) the non-compliance incidents were unintentional, did not involve any dishonesty or fraudulent act on the part of our executive Directors, and did not raise any question as to the integrity of our executive Directors.

The Sponsor concurs with the view of our Directors that (a) the various internal control measures adopted by our Group are adequate and effective; and (b) the abovementioned non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our executive Directors, and (c) did not raise any question as to the integrity of our executive Directors.

LITIGATION

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