

SUMMARY

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

BUSINESS OVERVIEW

We commenced our business in construction sector in 2003 and are an established contractor in the Hong Kong car park flooring industry. We provide (i) flooring services, which involve the application of proprietary floor coating products for the purpose of providing a colourful, slip-resistance, hard wearing surface that is resistant against water and petrochemicals; and (ii) ancillary services, which include concrete repairing and wall painting work in Hong Kong. Our target segment is the mid to high end customers in the car park flooring market.

Our car park flooring services

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

| | FY2015 | | FY2016 | |
|---------------------------|---------------|--------------|---------------|--------------|
| | HK\$'000 | % | HK\$'000 | % |
| New construction projects | 33,767 | 78.9 | 57,322 | 83.6 |
| Refurbishment projects | 9,041 | 21.1 | 11,253 | 16.4 |
| Total | 42,808 | 100.0 | 68,575 | 100.0 |

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

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

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

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

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The table below sets out the number and outstanding contact value of our contracts on hand as at 31 March 2015 and 2016 and as at the Latest Practicable Date:

| | Number of contracts | | Outstanding contract value | |
|-----------------------------------|---------------------|--|----------------------------|--|
| | Project in progress | Projects awarded but not yet commenced | Project in progress | Projects awarded but not yet commenced |
| As at 31 March 2015 | 12 | 21 | 10.2 | 15.5 |
| As at 31 March 2016 | 9 | 24 | 8.9 | 44.9 |
| As at the Latest Practicable Date | 11 | 21 | 8.6 | 40.9 |

(HK\$ million) (HK\$ million)

Our customers

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

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

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

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

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

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Our subcontractors

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

Our suppliers

Our suppliers primarily supply the following materials to us: (i) proprietary floor coating products for car park floor coating, screeding and anti-skid surfacing; (ii) cement; (iii) sand; and (iv) shot-blasting beads. During the Track Record Period, our material costs were approximately HK\$15.0 million and HK\$19.8 million respectively, representing 62.8% and 55.2% of our total costs of sales.

Reliance on major suppliers

During the Track Record Period, we relied on Supplier A, our largest supplier for supplying reputable car park floor coating materials. For FY2015 and FY2016, the percentage of our purchases from Supplier A was 77.8% and 80.1% of our total purchases for the corresponding periods, respectively, while the percentage of our purchases from our five largest suppliers in aggregate was 97.3% and 97.2%, respectively. For FY2015, FY2016, and the period from 1 April 2016 to the Latest Practicable Date, 79.6%, 81.8% and 74.1% of our Group’s revenue, and 78.9%, 80.4% and 70.4% of our Group’s gross profit were attributed to floor coating products sourced from Supplier A, respectively, while 19.7%, 15.0% and 17.5% of our Group’s revenue, and 19.9%, 16.3% and 24.2% of our Group’s gross profit were attributed to floor coating products sourced from Supplier B, respectively. For FY2015 and FY2016, our gross profit margin attributable to projects using Supplier A’s products were 43.6% and 46.8%, and our gross profit margin attributable to projects using Supplier B’s products were 44.7% and 52.0%.

For detailed analysis of the reasons for our reliance on Supplier A and the sustainability of our business in view of our reliance, please refer to the section headed “Business – Suppliers and Procurement of Materials – Reliance on major suppliers” in this document. Please also refer to the section headed “Risk Factors – Risks relating to our business – Our business heavily relies upon certain major suppliers for supplying reputable car park floor coating materials” in this document for our supplier concentration risk.

Our pricing strategy

Our pricing is determined on a case-by-case basis. Factors that we take into account in determining our fees generally include (i) product specifications; (ii) our customer’s budget; (iii) relationship with our customer; (iv) competition; (v) overall cost in undertaking the project; (vi) expected duration of project; and (vii) prevailing market conditions. For example, we may set a higher price for tenders that specify Supplier A’s or Supplier B’s proprietary floor coating products as the approved materials, as we are Supplier B’s sole distributor in Hong Kong and Supplier A’s “preferred applicator” in Hong Kong and so have a competitive advantage in bidding for the tender. 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 more competitive price in order to compete for the tender. We also tend to set a more competitive price if (i) we have long and harmonious work relationship with the customer; (ii) the project is not expected to have undue delays; or (iii) the prevailing market conditions are unfavorable.

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INDUSTRY AND MARKET

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

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

COMPETITIVE STRENGTHS

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

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

BUSINESS STRATEGIES

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

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

USE OF PROCEEDS

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

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

For details, please refer to the section headed “Future Plans and Use of Proceeds” in this document.

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RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, we had 32 contracts on hand with a total outstanding contract value of HK\$49.5 million, among which 11 were in progress with total outstanding contract value of HK\$8.6 million, and 21 had yet to commence work with total contract sum of HK\$40.9 million. Out of the 32 contracts on hand, four of them were sizeable contracts with contract sum of over HK\$5 million each. These four contracts involve provision of car park flooring works for a new construction project in a residential development on Clear Water Bay Road, Sai Kung a new construction project in a residential and commercial development at Tseung Kwan O, a new construction project in a residential and commercial development at Tsuen Wan, and a new construction residential development project at Yuen Long.

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

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

SELECTED FINANCIAL INFORMATION

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

During the Track Record Period, our revenue were approximately HK\$42.8 million and HK\$68.6 million respectively; whereas profit after tax were approximately HK\$11.1 million and HK\$16.8 million respectively. Our revenue increased by 60.2% or approximately HK\$26.0 million from FY2015 to FY2016 mainly due to an increase in number of larger contracts secured and completed in FY2016.

Our gross profit and gross profit margin were approximately HK\$ 18.9 million and 44.1% for FY2015, and HK\$ 32.7 million and 47.6% for FY2016. Our increase in gross profit approximately was in line with our increase in revenue during the Track Record Period. Increase of our gross profit margin was mainly due to our securing of a project with the total contract sum of approximately HK\$10 million in a commercial development at a shopping mall in Tsuen Wan with a relatively higher profit margin.

Our administrative expenses increased significantly from approximately HK\$5.8 million in FY2015 to approximately HK\$11.8 million in FY2016. Such increase was mainly due to the non-recurring expenses of approximately HK\$4.1 million incurred in FY2016 in relation to the Listing and increase of staff cost attributable to increase in headcount and salary increment.

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Our Summary Combined Statements of Profit or Loss

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

The following table sets forth our gross profit margin by new construction projects and refurbishment projects during the Track Record Period.

| | FY2015 | FY2016 |
|---------------------------|---------------|---------------|
| New construction projects | 41.4% | 47.9% |
| Refurbishment projects | 54.2% | 46.1% |

The following table sets forth our gross profit margin by sector of projects during the Track Record Period.

| | FY2015 | FY2016 |
|----------------|---------------|---------------|
| Private sector | 45.6% | 46.5% |
| Public sector | 30.5% | 64.2% |

The table below sets out our gross profit margin by customer type during the Track Record Period:

| | FY2015 | FY2016 |
|-------------------------------|---------------|---------------|
| Main contractors | 47.5% | 46.0% |
| Property developers | 38.5% | 58.8% |
| Property management companies | 71.9% | 52.4% |
| Upper tier subcontractors | 38.2% | 55.5% |

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Our gross profit margin from public sector increased from 30.5% for FY2015 to 64.2% for FY2016. Such increase was mainly due to our ability to secure a project on Po Heung Street with a relatively high profit margin. The project was awarded by Hong Kong Housing Authority with special site requirements and therefore requires the car park flooring materials tailored for its site conditions. Since our revenue was mainly derived from private sector, the increase of gross profit margin from public sector did not have significant impact to our overall gross profit margin during the Track Record Period.

Our gross profit margin from new construction projects increased from 41.4% for FY2015 to 47.9% for FY2016. Such increase was mainly due to our ability to secure projects in a commercial development on Hung Luen Road, Hung Hom and a retirement residential development on Tanner Hill Road, North Point with relatively higher profit margins in FY2016.

Our gross profit margin from refurbishment projects decreased from 54.2% for FY2015 to 46.1% for FY2016. Such decrease was mainly due to a project in shopping mall in Yuen Long with a relatively higher profit margin secured in FY2015.

Since our revenue was mainly derived from customers which are main contractors, the changes in gross profit margin from customers such as property management companies or upper tier subcontractors did not have significant impact to our overall gross profit margin during the Track Record Period.

Our Summary Combined Statements of Financial Position

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

Our Summary Combined Statements of Cash Flows

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

SUMMARY

Key financial ratios

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

HIGHLIGHTS OF RISK FACTORS

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

- Our business heavily relies upon certain major suppliers for supplying reputable car park floor coating materials;
- Our future growth is reliant on the continuous development of the property industry in Hong Kong;
- Introduction and acceptance of new car park floor coating material in Hong Kong with similar characteristics may adversely affect our profit margin;
- Any economic downturn in Hong Kong may delay refurbishment of car parks in older buildings and will exert cost pressure on tenders which will have an adverse effect on our planned business expansion in the refurbishment sector;
- We have a concentration of customers during the Track Record Period;
- Our success significantly depends on the key management and its ability to attract and retain additional technical and management staff; and
- We may face a shortage in materials and experience project delays if our suppliers fail to supply the quantity and quality of raw materials we need.

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NON-COMPLIANCE

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

SHAREHOLDER INFORMATION

Upon completion of [REDACTED] and Capitalisation Issue, Mr. Kwong, through Sage City, a company directly owned by him as to [REDACTED], will indirectly own [REDACTED]% of the issued share capital of our Company. Accordingly, Mr. Kwong and Sage City will be our Controlling Shareholders. Our [REDACTED] Investors, namely, Silver Thrive, Speedtown, Marine Assets and United Solutions will be interested in [REDACTED]%, [REDACTED]%, [REDACTED]% and [REDACTED]%, respectively, of the Shares in issue. Further details of our Group’s shareholding structure upon Listing can be founded in the section headed “History, Development, Reorganisation and Corporate Structure” in this document.

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

As at the Latest Practicable Date, none of our Controlling Shareholders was interested in any business which competes or is likely to compete with our business. Our Directors consider that we are capable of carrying on our business independent of our Controlling Shareholders. Please refer to the section headed “Relationship with the Controlling Shareholders” in this document.

[REDACTED]

Based on the [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range as stated in this document), total [REDACTED] in relation to the [REDACTED] to be borne by the Company is expected to be approximately HK\$[REDACTED] in aggregate. Of the total expected [REDACTED] of HK\$[REDACTED], HK\$[REDACTED] was charged to our profit and loss account in FY2016. As to the remaining HK\$[REDACTED], approximately HK\$[REDACTED] is expected to be deducted from our equity and approximately HK\$[REDACTED] will be charged to our combined profit and loss account in FY2017. Our Directors expect that our financial performance for FY2017 will be materially and adversely affected by expenses incurred in connection with the [REDACTED].

SUMMARY

[REDACTED] STATISTICS

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

Notes:

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

REASONS FOR THE LISTING

Over the years, our business focus has been to provide car park flooring services to new construction market. Based on our business plan, in order to expand our reach in the refurbishment market, which was, according to the Industry Report, 5.3 times the size of new construction market in terms of car park flooring revenue in 2015, and to further develop the new construction market segment, we need to raise long term capital.

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

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Prior to the Listing, funding of our business activities was primarily from internally generated cash of our own. We had approached commercial banks in the past for credit facilities. However, most banks would require collateral, either in the form of cash or immovable assets as such property. As we do not have property assets available for collateral, it has been difficult for us to secure bank borrowings, without the support by our Controlling Shareholder and on terms which we find favorable. In order to seek funding for payment of expenses associated with the Listing exercise prior to the actual listing, the Controlling Shareholders had invited the [REDACTED] Investors to invest in a total of [REDACTED]% interest in our Company. Pursuant to share sale and purchase agreements dated 14 August 2015, Sage City sold a total of 1,650 existing shares of Victor Ease, the intermediate holding company of KMK, to four groups of investors for an aggregate consideration of HK\$15,427,500. Of this amount, HK\$10.3 million was advanced by the Controlling Shareholders to our Group to pay for professional expenses relating to the Listing in June 2016. On 19 September 2016, in preparation for the Listing exercise, a commercial bank in Hong Kong granted us an overdraft facility of HK\$10 million. Such facility will be drawn down by the end of September 2016 to repay the above Shareholders' loan prior to the Listing. It is currently expected that the [REDACTED] would broaden not only our equity financing alternatives to cover public investors but could also enable us to seek bank financing under more favourable terms to finance our future business needs.

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