

BUSINESS

BUSINESS OVERVIEW

We are a comprehensive architectural service provider in Hong Kong and the PRC. In particular, our major operating subsidiary, LWK Hong Kong, is an architectural company duly registered in the HKIA. Architecture is our mainstream of practice and contributed 92.2%, 89.7% and 92.9% of our total revenue for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. Besides architecture, we also provide the service of: (a) landscape architecture; (b) town planning; (c) interior design; and (d) heritage conservation, mainly in both Hong Kong and the PRC. Our revenues generated from architecture and the other four practice areas during the Track Record Period are set forth below:

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
Hong Kong								
Architecture	36,853	18.6	61,115	22.8	28,135	21.8	40,740	27.4
Landscape architecture, town planning, interior design and heritage conservation	<u>2,165</u>	<u>1.1</u>	<u>8,746</u>	<u>3.2</u>	<u>3,617</u>	<u>2.8</u>	<u>2,311</u>	<u>1.6</u>
	39,018	19.7	69,861	26.0	31,752	24.6	43,051	29.0
PRC								
Architecture	145,234	73.1	178,459	66.5	88,190	68.3	93,972	63.3
Landscape architecture, town planning, interior design and heritage conservation	<u>13,052</u>	<u>6.6</u>	<u>18,955</u>	<u>7.1</u>	<u>8,387</u>	<u>6.5</u>	<u>7,774</u>	<u>5.2</u>
	158,286	79.7	197,414	73.6	96,577	74.8	101,746	68.5
Other markets ^(Note 1)								
Architecture	982	0.5	989	0.4	740	0.6	3,239	2.2
Landscape architecture, town planning, interior design and heritage conservation	<u>192</u>	<u>0.1</u>	<u>18</u>	<u>0.0</u>	<u>8</u>	<u>0.0</u>	<u>472</u>	<u>0.3</u>
	<u>1,174</u>	<u>0.6</u>	<u>1,007</u>	<u>0.4</u>	<u>748</u>	<u>0.6</u>	<u>3,711</u>	<u>2.5</u>
Total	<u><u>198,478</u></u>	<u><u>100.0</u></u>	<u><u>268,282</u></u>	<u><u>100.0</u></u>	<u><u>129,077</u></u>	<u><u>100.0</u></u>	<u><u>148,508</u></u>	<u><u>100.0</u></u>

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Note:

1. It includes projects located in Macau, Korea, Taiwan, Sri Lanka and Vietnam. During the Track Record Period notwithstanding that the projects were located in various jurisdictions, namely Hong Kong, the PRC, Macau, Korea, Taiwan, Sri Lanka and Vietnam, for all our projects, we provided our services in the offices of Hong Kong, the PRC and/or Macau only, cooperated with the local architectural companies with the relevant statutory licences and/or qualifications in the relevant jurisdictions and we did not set up any office in other jurisdictions. Through and at our Hong Kong, the PRC and/or Macau offices, we provided the service of conceptual design to projects located in other markets and the relevant local architectural companies which possess the relevant statutory licences and/or qualifications in those jurisdictions are principally responsible for the execution of such projects. Our Directors confirm that we only provide our design concepts formulated in our Hong Kong, PRC and/or Macau offices in respect of projects located in other markets and during the Track Record Period we had not carried out any business activities in markets other than Hong Kong, the PRC and Macau, which requires specific qualifications and/or approval.

We consider that we are one of the leading local architectural service providers in Hong Kong, being ranked seventh in terms of the total revenue in 2012 among all of the architectural service providers in Hong Kong, according to the [●] Report. For details, please refer to the paragraph headed "Our Competitive Advantages" in this section below.

We started providing services to the projects located in the PRC through LWK Shenzhen in 2002. In addition to our headquarter in Hong Kong, we have five offices in the PRC, namely in Shenzhen, Shanghai, Guangzhou, Chengdu and Shenyang.

On 2 April 2011, we acquired 75% equity interest in LWK Yiheng, an enterprise with the Grade A Qualification. With the Grade A Qualification, we have expanded our operations in the PRC, with services covering from conceptual design to building completion of a property development in the PRC. For details, please refer to the paragraph headed "Our Competitive Advantages" in this section below.

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We have an established presence in Hong Kong and in cities of different tiers in the PRC with a strong and diversified clientele base. The following two tables set forth the breakdown of our Group's revenue by (1) types of clients; and (2) geographical locations of our projects, during the Track Record Period:

Client ^(Note 1)	Number of clients attributable to our revenue during the Track Record Period		Number of projects involved during the Track Record Period		Year ended 31 December				Six months ended 30 June			
			2011		2012		2012		2013			
			HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)		
HK Blue-chip Developers	12	175	113,550	57.3	135,547	50.5	70,862	54.9	78,527	52.9		
HK listed developers ^(Note 2)	24	100	45,484	22.9	36,371	13.6	16,387	12.7	21,504	14.5		
HK unlisted developers	11	20	7,214	3.6	15,092	5.6	5,884	4.6	18,705	12.6		
PRC developers ^(Note 3)	99	121	28,170	14.2	70,440	26.3	27,386	21.2	29,469	19.8		
Others ^(Note 4)	47	58	4,060	2.0	10,832	4.0	8,558	6.6	303	0.2		
Total:	193	474	198,478	100.0	268,282	100.0	129,077	100.0	148,508	100.0		

Notes:

1. The clients above are categorised into groups. If a client is listed on both of the stock exchanges of Hong Kong and the PRC, for the purpose of the table above, it is categorised as a Hong Kong listed company. For joint development by more than one client, the client who controls and is in charge of the management office of that joint development is regarded as the principal client. For the purpose of the table above, such development is categorised as it belongs to that principal client.
2. This excludes the HK Blue-chip Developers.
3. This includes PRC state-owned developers, PRC listed developers and PRC unlisted developers. If the PRC state-owned developers and PRC listed developers are listed in Hong Kong, for the purpose of the table above, they are categorised as HK Blue-chip Developers or HK listed developers, as the case may be.
4. This includes but is not limited to the Government, public organisations in Hong Kong and the PRC government authorities.

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Project location	Number of projects involved during the Track Record Period	Year ended 31 December				Six months ended 30 June			
		2011		2012		2012		2013	
		HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)
Hong Kong	141	39,018	19.7	69,861	26.0	31,752	24.6	43,051	29.0
PRC									
— First tier cities ^(Note 1)	48	29,040	14.6	64,607	24.1	36,673	28.5	32,194	21.7
— Second tier cities ^(Note 2)	134	88,628	44.6	70,299	26.2	34,640	26.8	37,460	25.2
— Third tier and other PRC cities ^(Note 3)	139	40,618	20.5	62,508	23.3	25,264	19.6	32,092	21.6
Others ^(Note 4)	12	1,174	0.6	1,007	0.4	748	0.6	3,711	2.5
Total:	474	198,478	100.0	268,282	100.0	129,077	100.0	148,508	100.0

Notes:

1. According to the [●] Report, first tier cities include Beijing, Shanghai, Guangzhou and Shenzhen.
2. According to the [●] Report, second tier cities include Chengdu, Chongqing, Hangzhou, Tianjin, Dalian, Wuhan, Suzhou, Nanjing, Qingdao, Xiamen, Xi'an, Ningbo, Changsha, Hefei, Zhengzhou, Wuxi, Dongguan, Jinan and Shenyang.
3. According to the [●] Report, third tier cities include Fuzhou, Kunming, Changchun, Harbin, Foshan, Shijiazhuang, Nanning, Changzhou, Nanchang, Hohhot, Wenzhou, Yantai, Nantong, Zhuhai, Guiyang, Taiyuan, Urumqi, Shaoxing, Zhongshan, Jiaying, Weifang, Tangshan, Xuzhou, Jinhua, Quanzhou, Luoyang, Lanzhou, Haikou, Jilin, Xiangyang and Shantou.
4. It includes projects located in Macau, Korea, Taiwan, Sri Lanka and Vietnam. During the Track Record Period, notwithstanding that the projects were located in various jurisdictions, namely Hong Kong, the PRC, Macau, Korea, Taiwan, Sri Lanka and Vietnam, for all our projects, we provided our services in the offices of Hong Kong, the PRC and/or Macau only, cooperated with the local architectural companies with the relevant statutory licences and/or qualifications in the relevant jurisdictions and we did not set up any office in other jurisdictions. Through and at our Hong Kong, the PRC and/or Macau offices, we provided the service of conceptual design to projects located in other markets and the relevant local architectural companies which possess the relevant statutory licences and/or qualifications in those jurisdictions are principally responsible for the execution of such projects. Our Directors confirm that we only provide our design concepts formulated in our Hong Kong, PRC and/or Macau offices in respect of projects located in other markets and during the Track Record Period we had not carried out any business activities in markets other than Hong Kong, the PRC and Macau, which requires specific qualifications and/or approval.

For the breakdown of our Group's revenue during the Track Record Period by contract sums of our projects, please refer to the tables set forth under the paragraph headed “Our Services — Our projects” in this section below.

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OUR BUSINESS MODEL

We have an integrated business model covering from design, project administration to supervision of a project development. The following table provides an illustration of our business model:

Design	Project Administration	Supervision
<ul style="list-style-type: none">• Diversified project teams	<ul style="list-style-type: none">• Co-ordination with consultants and/or contractors	<ul style="list-style-type: none">• Site supervision
<ul style="list-style-type: none">• Systematic allocation of work	<ul style="list-style-type: none">• Statutory submission(s)	<ul style="list-style-type: none">• Building inspection
<ul style="list-style-type: none">• Quality control		<ul style="list-style-type: none">• Rectification work

Design

We recruit both local and overseas staff and our project teams comprise staff with different expertise and professional qualifications. Together with our training and development program to our staff, we believe our project teams have a diversified knowledge base to produce quality designs.

In order to maintain the production efficiency and quality of our design products, including drawings and models, we have a systematic work allocation mechanism and quality control measures. We have obtained the certificate of ISO 9001 in respect of our quality management system.

Project Administration

In a property development in Hong Kong and the PRC, certain statutory submissions of plans and/or designs to relevant authorities are required in different stages. In order to produce the plans and/or designs for statutory submissions, for example, the general building plans and preliminary designs (初步設計), inputs from other external consultants, such as structural engineers, quantity surveyors and/or building service engineers, are necessary. We will co-ordinate with different external consultants and consolidate inputs from different parties in a property development into the plans and/or designs for statutory submissions. Further we will also co-ordinate with the contractors, during the construction works stage, to ensure the construction works comply with the plans and designs approved by the relevant authorities.

Supervision

During the construction works stage, we will carry out site supervision to ensure the quality and safety of the construction works. After building is completed, we will carry out inspection to ensure the building is safe for occupation or able to pass the inspection by the relevant authorities. We will also co-ordinate with different parties if any rectification work is required.

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OUR SERVICES

Being a comprehensive architectural service provider, we have five major practice areas: (a) architecture; (b) landscape architecture; (c) town planning; (d) interior design; and (e) heritage conservation. The following is a brief introduction of these five practice areas:

Architecture

Architecture is our mainstream of practice. We provide a wide range of services of architecture to our clients, including: (i) architectural design (or building design) to different types of building developments, such as residential, commercial and mixed-use developments; (ii) associated study and drawing services for facilitating architectural design, such as feasibility study, production of schematic drawings, detailed drawings and tender drawings; and (iii) associated administration services for facilitating architectural design, such as administration of a building contract, statutory submission of building plans and site supervision.

With the Grade A Qualification, we are eligible to provide the relevant technical, consulting and project management services in a PRC development from conceptual design to building completion. In particular, we are eligible to provide, including but not limited to (i) building and structural design; (ii) outdoor engineering design; (iii) underground engineering design for residential building; (iv) design for small residential area, surrounding area of the industrial area and living area within the industrial area; (v) planning design for small area; and (vi) simplex design.

The design content and/or the relevant specialties involved in the above architectural services, including but not limited, to master layout planning design, site leveling design, piping and wiring system, landscape design, interior decoration design, infrastructure, fire services, intelligence control system, security system, communications system, lightning prevention, civil air defense, power supply system, lighting design, drainage system, air-conditioning facilities and earthquake resistance reinforcement.

After our acquisition of LWK Yiheng, we have engaged in the provision of all the above types of architectural service in the PRC.

Landscape architecture

Our service of landscape architecture includes: (i) landscape design to a wide range of projects, including parks, gardens and residential development, urban design, sports and recreational sites, community and civic spaces, resorts and streetscape; (ii) associated study and drawing services for facilitating landscape design, such as production of schematic design, visualisations, detailed design and tender drawings; and (iii) associated administration services for facilitating landscaping design, such as statutory submission of landscape master plans, tree survey and site supervision.

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Town planning

Our service of town planning includes: (i) planning feasibility study of a particular region, city, district and various types of projects, such as residential, commercial, mixed-use, tourist and logistic developments through detailed urban, social, economic, environmental research and analysis; (ii) conceptual and detailed master planning and urban design to formulate a master layout plan (MLP), associated design visualisation as well as technical analysis for various types of projects; and (iii) statutory planning submission to the Town Planning Board in Hong Kong pursuant to the Town Planning Ordinance (Cap. 131).

Interior design

Our service of interior design includes: (i) interior design to different building premises, such as residential, commercial and mixed-use developments; and (ii) associated drawing services for facilitating interior design, such as feasibility study, production of schematic drawings, detailed drawings and tender drawings; and (iii) associated administration services for facilitating interior design, such as administration of fitting out contracts and site supervision.

Heritage conservation

Our service of heritage conservation includes: (i) appraisals of historic buildings, diagnostic investigations, including condition survey, measured drawings, photographic and cartographic survey of historic buildings; (ii) an integrated architecture and conservation design solution for adaptive reuse or revitalisation of historical buildings or heritages, and urban renewal or regeneration projects with conservation elements; (iii) associated drawing services for facilitating the heritage conservation designs, such as feasibility study, production of schematic drawings, detailed drawings and tender drawings; and (iv) associated administration services for facilitating the heritage conservation designs, such as statutory submission of a conservation management plan (CMP) & heritage impact assessment (HIA), administration of a building contract and site supervision.

Our projects

During the Track Record Period, we were involved in 474 projects in total, of which 141, 321 and 12 projects were located in Hong Kong, the PRC and other markets, respectively. Amongst the 141 projects in Hong Kong, 62 projects were completed and with full receipt of the contract sum and 79 projects were in progress as at 30 June 2013. Amongst the 321 projects in the PRC, 185 projects were completed and with full receipt of the contract sum and 136 projects were in progress as at 30 June 2013.

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The following table sets forth the summary about the projects that were completed during the Track Record Period:

	Hong Kong			The PRC			Other Markets ^(Note 1)		
	Number of projects	Revenue recognised during		Number of projects	Revenue recognised during		Number of projects	Revenue recognised during	
		Total contract sum HK\$'000	the Track Record Period HK\$'000		Total contract sum HK\$'000	the Track Record Period HK\$'000		Total contract sum HK\$'000	the Track Record Period HK\$'000
Projects with a contract sum of HK\$10,000,000 or above	3	42,222	51	3	68,846	9,001	-	-	-
Projects with a contract sum below HK\$10,000,000	59	61,007	12,865	183	234,346	93,780	8	12,171	2,265
Total:	62	103,229	12,916	186	303,192	102,781	8	12,171	2,265

Note:

- It includes projects located in Macau, Korea, Taiwan, Sri Lanka and Vietnam. During the Track Record Period notwithstanding that the projects were located in various jurisdictions, namely Hong Kong, the PRC, Macau, Korea, Taiwan, Sri Lanka and Vietnam, for all our projects, we provided our services in the offices of Hong Kong, the PRC and/or Macau only, cooperated with the local architectural companies with the relevant statutory licences and/or qualifications in the relevant jurisdictions and we did not set up any office in other jurisdictions. Through and at our Hong Kong, the PRC and/or Macau offices, we provided the service of conceptual design to projects located in other markets and the relevant local architectural companies which possess the relevant statutory licences and/or qualifications in those jurisdictions are principally responsible for the execution of such projects. Our Directors confirm that we only provide our design concepts formulated in our Hong Kong, PRC and/or Macau offices in respect of projects located in other markets and during the Track Record Period we had not carried out any business activities in markets other than Hong Kong, the PRC and Macau, which requires specific qualifications and/or approval.

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The following three tables set forth the information about our projects available as at 30 June 2013 with reference to the contract sum:

Hong Kong

	Number of projects ^(Note 3)	Total contract sum ^(Note 3) HK\$'000	Remaining contract sum ^(Notes 1 and 3) HK\$'000	Revenue recognised during the Track Record Period HK\$'000
Projects with a contract sum of HK\$10,000,000 or above	12	240,906	176,084	58,840
Projects with a contract sum below HK\$10,000,000	<u>67</u>	<u>192,678</u>	<u>91,587</u>	<u>76,734</u>
Total:	<u><u>79</u></u>	<u><u>433,584</u></u>	<u><u>267,671</u></u>	<u><u>135,574</u></u>

The PRC

	Number of projects ^(Note 3)	Total contract sum ^(Note 3) HK\$'000	Remaining contract sum ^(Notes 1 and 3) HK\$'000	Revenue recognised during the Track Record Period HK\$'000
Projects with a contract sum of HK\$10,000,000 or above	35	928,813	505,293	218,644
Projects with a contract sum below HK\$10,000,000	<u>100</u>	<u>361,605</u>	<u>180,066</u>	<u>139,620</u>
Total:	<u><u>135</u></u>	<u><u>1,290,418</u></u>	<u><u>685,359</u></u>	<u><u>358,264</u></u>

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Other Markets^(Note 2)

	Number of projects ^(Note 3)	Total contract sum ^(Note 3) HK\$'000	Remaining contract sum ^(Notes 1 and 3) HK\$'000	Revenue recognised during the Track Record Period HK\$'000
Projects with a contract sum of HK\$10,000,000 or above	1	15,466	14,804	1,190
Projects with a contract sum below HK\$10,000,000	3	12,147	9,869	2,278
Total:	4	27,613	24,673	3,468

Notes:

1. Summation of contract sums of all projects in the category x (100% – percentage of completion).

2. It includes projects located in Macau, Korea, Taiwan, Sri Lanka and Vietnam. During the Track Record Period notwithstanding that the projects were located in various jurisdictions, namely Hong Kong, the PRC, Macau, Korea, Taiwan, Sri Lanka and Vietnam, for all our projects, we provided our services in the offices of Hong Kong, the PRC and/or Macau only, cooperated with the local architectural companies with the relevant statutory licences and/or qualifications in the relevant jurisdictions and we did not set up any office in other jurisdictions. Through and at our Hong Kong, the PRC and/or Macau offices, we provided the service of conceptual design to projects located in other markets and the relevant local architectural companies which possess the relevant statutory licences and/or qualifications in those jurisdictions are principally responsible for the execution of such projects. Our Directors confirm that we only provide our design concepts formulated in our Hong Kong, PRC and/or Macau offices in respect of projects located in other markets and during the Track Record Period we had not carried out any business activities in markets other than Hong Kong, the PRC and Macau, which requires specific qualifications and/or approval.

3. Number of projects, total contract sum and remaining contract sum represent all our projects available as at 30 June 2013 including those awarded but yet to commence.

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The following three tables set forth the information about our projects available as at 30 June 2013 with reference to the stages:

Hong Kong

Stages	Number of projects	Total contract sum HK\$'000	Remaining contract sum ^(Note 1) HK\$'000	Revenue recognised during the Track Record Period
				HK\$'000
Awarded but had not yet commenced	1	730	730	–
Starting ^(Note 2)	11	87,225	83,180	4,045
In progress ^(Note 3)	59	315,173	182,572	112,811
Finishing ^(Note 4)	8	30,456	1,189	18,718
Total:	79	433,584	267,671	135,574

The PRC

Stages	Number of projects	Total contract sum HK\$'000	Remaining contract sum ^(Note 1) HK\$'000	Revenue recognised during the Track Record Period
				HK\$'000
Awarded but had not yet commenced	6	43,066	43,066	–
Starting ^(Note 2)	11	168,188	164,615	3,573
In progress ^(Note 3)	102	914,143	471,775	314,442
Finishing ^(Note 4)	16	165,021	5,903	40,249
Total:	135	1,290,418	685,359	358,264

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Other Markets^(Note 5)

Stages	Number of projects	Total contract sum <i>HK\$'000</i>	Remaining contract sum ^(Note 1) <i>HK\$'000</i>	Revenue recognised during the Track Record Period <i>HK\$'000</i>
Awarded but had not yet commenced	-	-	-	-
Starting ^(Note 2)	2	21,720	20,706	1,542
In progress ^(Note 3)	2	5,893	3,967	1,926
Finishing ^(Note 4)	-	-	-	-
Total:	4	27,613	24,673	3,468

Notes:

1. Summation of contract sums of all projects in the category x (100% - percentage of completion).
2. Less than 10% of the project had been completed.
3. 10% to 90% of the project had been completed.
4. Over 90% of the project had been completed but does not include projects fully completed as at 30 June 2013.
5. It includes projects located in Macau, Korea, Taiwan, Sri Lanka and Vietnam. During the Track Record Period notwithstanding that the projects were located in various jurisdictions, namely Hong Kong, the PRC, Macau, Korea, Taiwan, Sri Lanka and Vietnam, for all our projects, we provided our services in the offices of Hong Kong, the PRC and/or Macau only, cooperated with the local architectural companies with the relevant statutory licences and/or qualifications in the relevant jurisdictions and we did not set up any office in other jurisdictions. Through and at our Hong Kong, the PRC and/or Macau offices, we provided the service of conceptual design to projects located in other markets and the relevant local architectural companies which possess the relevant statutory licences and/or qualifications in those jurisdictions are principally responsible for the execution of such projects. Our Directors confirm that we only provide our design concepts formulated in our Hong Kong, PRC and/or Macau offices in respect of projects located in other markets and during the Track Record Period we had not carried out any business activities in markets other than Hong Kong, the PRC and Macau, which requires specific qualifications and/or approval.

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OUR COMPETITIVE ADVANTAGES

With experienced management, professional staff and project experience, our Directors consider that we have established a reputation in the architectural service industry in Hong Kong and the PRC. Our Directors believe that our Group possesses the following competitive advantages:

We are one of the leading local architectural service providers in Hong Kong

There is no specific ranking system in the architectural service industry. In Hong Kong, architectural service providers are classified into two bands by the AACSB plus one extra band compiled, maintained and provided separately by the Association of Architectural Practices in Hong Kong and the HKIA. For details of the minimum entry criteria of, eligibility and the number of architectural service providers holding the relevant qualification in 2012, please refer to the section headed "Industry Overview Architectural service industry in Hong Kong — Classification of architectural service providers in Hong Kong". The entry barrier of Band 1 List of Consultants of AACSB is higher than the other two bands. Further, the project value of the projects that the architectural service companies in the Band 1 List of Consultants of AACSB are eligible to bid for is the highest among the three bands. As such, the banding of architectural service providers serves as a guideline for property developers to select eligible service providers.

As at the Latest Practicable Date, there were [174] architectural service companies duly registered in the HKIA, of which 22 of them have been placed in the Band 1 List of Consultants of the AACSB ("**Band 1 List of Consultants of AACSB**"). LWK Hong Kong is currently placed in the Band 1 List of Consultants of AACSB. Architectural service companies placed in the Band 1 List of Consultants of AACSB will be eligible to bid for AACSB consultancies of the appropriate category with estimated project value exceeding HK\$245 million each.

The following table sets forth the top 10 architectural service providers in Hong Kong in terms of revenue in 2012:

Rank	Name of Company	Location of Headquarter	Revenue in 2012 ^(Note 1) (HK\$ million)	Market Share of Total Industry Revenue (%)	Number of Offices Globally	Architecture	Practice Areas				Grade A Qualification
							Town Planning	Landscape Architecture	Interior Design	Heritage Conservation	
1	Company A	outside Hong Kong	3,103	18.6%	27	✓	✓	✓	✓	✓	
2	Company B	Hong Kong	1,078	6.5%	16	✓	✓	✓	✓		
3	Company C	Hong Kong	458	2.7%	5	✓	✓	✓	✓		✓
4	Company D	Hong Kong	380	2.3%	5	✓	✓	✓	✓		
5	Company E	Hong Kong	302	1.8%	5	✓			✓		
6	Company F	Hong Kong	296	1.8%	5	✓	✓	✓			
7	Our Group	Hong Kong	268	1.6%	6	✓	✓	✓	✓	✓	✓
8	Company G	Hong Kong	251	1.5%	3	✓	✓	✓			
9	Company H	Hong Kong	215	1.3%	6	✓	✓	✓			✓
10	Company I	outside Hong Kong	190	1.1%	4	✓	✓	✓			

Source: [●] Report

Note:

1. Revenues of the top 10 architectural service providers in Hong Kong include their international revenues generated in and outside Hong Kong.

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We consider that we are one of the leading local architectural service providers in Hong Kong, being ranked seventh in terms of the total revenue in 2012 among all architectural service providers in Hong Kong, according to the [●] Report.

We provide comprehensive architectural service to our clients

Being a comprehensive architectural service provider, we have five major practice areas: (a) architecture; (b) landscape architecture; (c) town planning; (d) interior design; and (e) heritage conservation.

Further, our comprehensive architectural service model is gaining strength from the combination of our Hong Kong office and the PRC office. In a PRC development project, the developer, both from Hong Kong and the PRC, will need to engage an enterprise with relevant design qualification, to design, endorse and/or submit certain documents to the PRC government for approval in certain stages of the development. With the addition of LWK Yiheng in our Group, an enterprise with the Grade A Qualification, we have expanded our operations in the PRC, with services covering from conceptual design to building completion of a property development in the PRC.

If our Hong Kong client commences a property development in the PRC, our comprehensive architectural service model is valuable to them because we are able to provide them a one-stop-shop service in the development. For our PRC clients, our Hong Kong background provides an added value of having architects with international experience involved.

Our Directors believe that our comprehensive architectural service model will ensure quality enhancement of our service and provide a better product to our clients through the close liaison within our Group. This can be shown by our increased clientele seeking our service during the Track Record Period as we had 48, 47 and 27 new clients for each of the two years ended 31 December 2012 and the six months ended 30 June 2013, respectively.

We have stable and long-term client relationships with sizeable developers

We have established stable and long-term business relationships with sizeable developers, including HK Blue-chip Developers, HK-listed developers and various sizeable developers in the PRC. Further, our established clientele provides us a stable source of revenue. Our clients, who have maintained relationships with us for more than 5 years, contributed to 68.7%, 60.2% and 65.1% of our revenue for the two years ended 31 December 2012 and the six months ended 30 June 2013, respectively.

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Through constant interactions, we gain knowledge of our clients' preferences and this enables us to provide more comprehensive and tailor-made services to them. Our Directors believe that our long-term relationships with sizeable developers in Hong Kong and the PRC provide a stable source of revenue to our Group.

The following table sets forth the breakdown of our clients by duration of their business relationships with us and their respective accumulated contribution to the revenue of our Group during the Track Record Period:

Client Relationship	Number of clients involved in the year ended 31 December		Number of projects involved in the year ended 31 December		Number of clients involved in the year ended 31 December		Number of projects involved in the year ended 31 December		Number of clients involved in the six months ended 30 June		Number of projects involved in the six months ended 30 June	
	2011	2011	Year ended 31 December 2011	Year ended 31 December 2011	2012	2012	Year ended 31 December 2012	Year ended 31 December 2012	June 2013	June 2013	Six months ended 30 June 2013	Six months ended 30 June 2013
			HK\$'000	(%)			HK\$'000	(%)			HK\$'000	(%)
Less than 1 year	48	56	11,993	6.0	47	49	34,786	13.0	27	30	10,888	7.3
1 year or above but less than 5 years	37	73	50,214	25.3	85	129	71,798	26.8	53	83	40,956	27.6
5 years or above but less than 10 years	20	118	61,267	30.9	20	118	84,291	31.4	10	65	22,600	15.2
10 years or above but less than 15 years	7	30	24,216	12.2	7	30	27,950	10.4	9	61	46,472	31.3
Over 15 years	8	66	50,788	25.6	8	66	49,457	18.4	7	59	27,592	18.6
Total:	120	343	198,478	100.0	167	392	268,282	100.0	106	298	148,508	100.0

Note:

- The clients above are categorised into groups. For details of such categorisation, please refer to the table set out under the paragraph "Business Overview" in this section above.

We have a diversified clientele base with clients from cities of different tiers in the PRC

We believe that our wide geographical coverage, together with our diversified clientele base in cities in which we already have an established presence, is a key factor in our competitive market position in the PRC.

According to the [●] Report, the continuous growth in the urbanisation rate and economy of the PRC will sustain the development and growth of its architectural service industry. Our Directors believe that this will continue and increase in both growth and demand concerning architectural service in response to the development in cities in the PRC over the next decade.

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During the Track Record Period, we had over 320 projects in around 30 cities in the PRC, covering from first tier cities in the coastal region to third tier cities in the central and western regions of the PRC. Our Directors believe that the second and third tier cities in the PRC would play an increasing role in the market as a result of the rapid urbanisation in the PRC. We consider that our diversified clientele base allows us to accumulate knowledge of the business environment of the regional markets and establish connections and working relationships with local business partners.

We have gained wide market recognition in Hong Kong and the PRC

During the Track Record Period, we had involved in over 470 projects in Hong Kong and the PRC, covering from first tier cities in the coastal region to third tier cities in the central and western regions of the PRC, with an accumulated contract sum of more than HK\$2,100 million. In addition, in recent years, we had been awarded 15 major prizes in recognition of our work in Hong Kong and the PRC. For details of our awards and prizes, please refer to the paragraph headed "Awards and Accreditation" in this section below.

Our Directors believe that the number, and geographical locations of our projects and the prizes we received in recent years serve as good indicators of our wide market recognition in Hong Kong and the PRC.

We have an established multi-office operation model within our Group

With a view to achieving long-term access to the PRC market, we established our first PRC office in Shenzhen in 2002. Since 2002, we have expanded to five offices located across the PRC as at the Latest Practicable Date. Different work stages of our projects can be specifically assigned to the designated departments or teams amongst our local offices through our Group's well-established multi-office operation model to capitalize on our diversified technical knowledge, enhance productivity and efficiency, and cater for the special needs of our local clients.

BUSINESS STRATEGIES AND [●]

We aim to further establish a multi-centre operation model to increase our productivity and profitability by adopting the following strategies:

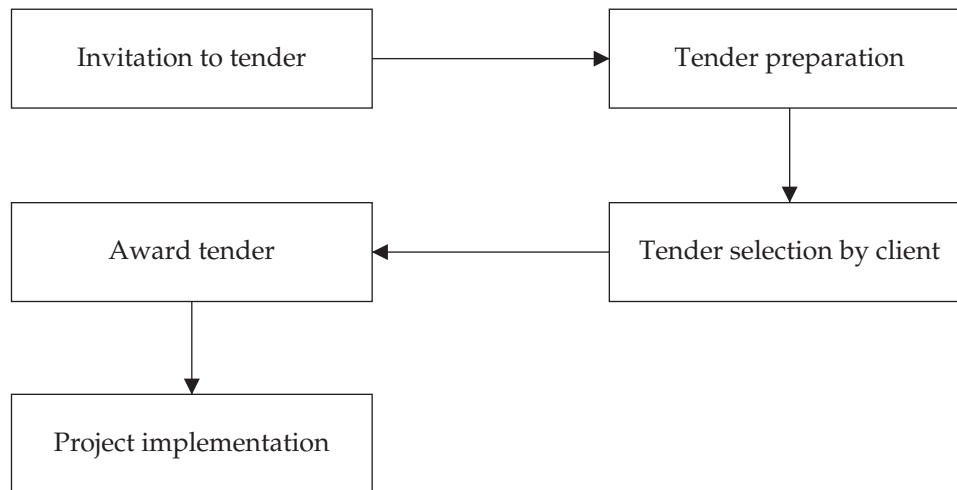
- to enhance our information technology infrastructure;
- to carry out marketing activities in the PRC; and
- to expand our offices and teams.

For details of our business strategies and future plans, please refer to the section headed "[●]".

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OPERATING PROCEDURES

Our Group principally obtains business by invited tendering. The following diagram illustrates the general operational procedures of our projects undertaken by us from invited tendering:



Invitation to tender

We, from time to time, receive invitation to tender from our clients or potential clients for our service. The invitation to tender usually contains a tender document package which may include project description, a draft service contract, land leases, requirements of the tender proposal and various forms for tender submission.

All of the invitations to tender received by us will first be reviewed by our management. They will consider various factors, amongst others, nature of the project, project size, reputation of the clients, previous business experience (if any), any particular specialty required and the risks involved. If our management decides to accept the invitation, we will proceed to prepare the tender proposal.

Tendering

We have a systematic tender review procedure to allow us to make a competitive tender submission. After our management decides to submit a tender, a project director in charge of the proposal/project will be assigned.

In general, the tender proposal involves two parts: (i) a fee proposal; and (ii) a technical proposal.

Preparation of fee proposal

Our contracts department is responsible for making a fee proposal. We calculate the tender price with reference to the following factors: (i) project type; (ii) project location; (iii) stages involved; (iv) gross total area of the site; (v) design requirements; (vi) expected

BUSINESS

completion time; (vii) complexity; (viii) the costs to engage sub-consultants (if necessary); (ix) expected labour required; and (x) result from our client evaluation (if applicable). We will also make reference to the previous projects/proposals completed or submitted in preparing the fee proposal.

Further, our contracts department will also include our proposed terms to the draft service contract. If our client does not provide their draft service contract, we will include our draft service contract in the tender proposal.

Preparation of technical proposal

The technical proposal is prepared by our project team, formed by the project director, comprising colleagues from different departments. We will consider the following factors in forming the project team: (i) project location, i.e. Hong Kong, the PRC or overseas; (ii) project nature, i.e. residential towers, luxury houses, commercial, institutional, or master planning; (iii) preference of customer; (iv) preference of the design style, such as classical approach or contemporary approach; and (v) expertise of our colleagues and their workload.

The content of a technical proposal depends on the tender requirements. In general, the technical proposal usually includes written statements on design approaches, project program, our relevant project experience or track record, our project team personnel, including team structure, key personnel, degree of involvement of each member and sub-consultants (if necessary). If our scope of work in the project involves design, the technical proposal may also include design drawings, schedules, diagrams and models to demonstrate our proposed design approach.

Tender submission

Our management will review the tender proposal and confirm submission. After the tender submission, we may have to attend an interview to present the tender proposal and reply to tender queries. If the project is awarded to us, we will finalise the service contract with our client. If the project is not awarded to us, the tender proposal will be closed.

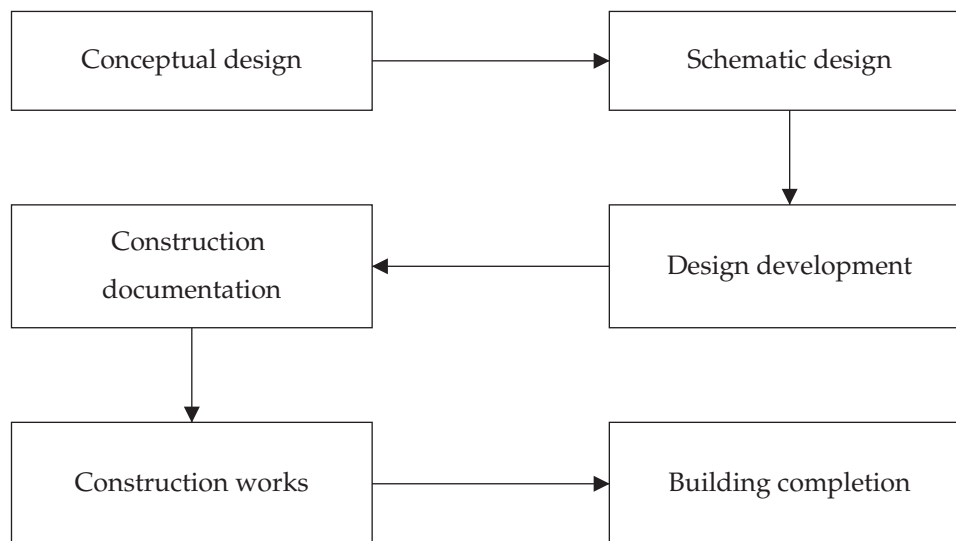
For the two years ended 31 December 2012 and the six months ended 30 June 2013, our success rates of tender were approximately 26.3%, 26.8% and 27.0%, respectively.

Project Implementation

When a project is awarded to us, we will proceed to execute the project pursuant to its terms. The actual work to be carried out by us much depends on our role in the project, the stage of the development we are involved and the scope of service under the service contract. In general, the project director will review and reconfirm the resources to be placed in the project, including the confirmation of the project team members and the sub-consultants (if any). Our accounting department will establish a budget cost plan and invoicing schedule of the project.

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In general, an entire development project carried out by a developer involves the following major stages of work:



To complete an entire development, the developer needs to engage various consultants. Depending on the type of development, the following consultants may be engaged: architect, landscape architect, town planner, interior designer, heritage conservation consultant, structural engineer, building service engineer, quantity surveyor. At different stages of work, different consultants will be involved and they may have different roles.

Our client may engage us to be their consultant of certain type(s) to provide service to them at certain stage(s) of work in the entire development. For example, we may be engaged to provide town planning service for the development during the schematic design stage, or to provide landscape architectural service from the conceptual design stage to the construction documentation stage, or to provide architectural and interior design service from the schematic design stage to the building completion. As such, our comprehensive service model is able to fulfill the needs of various developers.

Before the acquisition of LWK Yiheng, we did not have the Grade A Qualification. Nevertheless, without the relevant design qualification, as advised by our PRC Legal Advisers, it was legitimate for our Group to provide, and we only provided, the architectural service in the PRC under the following three situations:

- (i) we were involved in the consultancy services of specific item engineering design (專項工程設計) which did not require design qualification pursuant to the Circular on Design Qualification Standards and the Circular on Application of Specific Design Qualification;
- (ii) we were involved in the conceptual design only; or
- (iii) we were required to cooperate with a PRC design enterprise with the relevant design qualification if we provided the architectural service on or after the schematic design.

Note: For details please refer to the section headed "Regulatory Overview — The PRC — A. Laws and regulations relating to the industry"

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Further, before the acquisition of LWK Yiheng, if statutory submission of designs and documentation to the relevant bureaus in the PRC for approval was required in certain stages of work in a PRC property development, our Group or the developer would need to engage a PRC design enterprise with the relevant design qualification to arrange for such statutory submission. After the acquisition of LWK Yiheng, with the Grade A Qualification, we are entitled to provide architectural service for a PRC property development from conceptual design to building completion and arrange for the statutory submission of designs and documentation to the relevant bureaus in the PRC for approval. For details of the architectural service we are entitled to provide, please refer to the paragraph headed "Our Services" above in this section.

As advised by our PRC Legal Advisers, our operations in the PRC were in full compliance with all the relevant laws, rules and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

The following is a brief introduction of these major stages of work and our services to be provided to our clients in these stages:

Conceptual design (概念設計)

At the commencement of a property development, our client usually has decided the general building type of the development, such as hotel, residential or commercial. Nevertheless, the major parameters of the development, such as the infrastructure, peripheral facilities and density have not yet been determined. Therefore, at the conceptual design stage, we consider our role is to substantiate our client's idea of development and assist them to maximize the economic value of the site.

We will confirm with our client the information, including the functional requirement(s) of the building(s), market positioning of the project and theme of the development. After that, we will prepare a background study about the statutory restrictions imposed by relevant authorities on the development, and will visit the site and carry out the view and surrounding analyses, including the analyses of pedestrian and vehicular traffic flow, noise, wind direction and terrain profile, etc.

In general, we will produce to our client the following documents:

- a sketch master layout plan (MLP) (if necessary), plans sections and three-dimensional sketches indicating the placement of the functional spaces, circulation arrangement and the overall building form of the project; and
- the overall development program/timetable and estimated budget of the project.

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As advised by our PRC legal adviser, the provision of architectural service for the conceptual design does not need any design qualification. As such, before the acquisition of LWK Yiheng, we were able to complete this stage of work ourselves.

Schematic design (方案設計)

After the conceptual design stage, the overall concept or outline of the development has been confirmed. At the schematic design stage, our role is to produce more detailed sketches, drawings and plans to our client, and if necessary, for statutory submission. We will carry out a thorough study for our client on the following areas which have direct impact on the schematic design or the master layout plan (MLP) to be prepared by us:

- pedestrian and vehicular circulation;
- servicing strategy, including refuse collection arrangement and loading/unloading arrangement;
- electrical and mechanical provisions; and
- environmental considerations, such as site ventilation and natural lighting.

We will incorporate our client's proposed arrangement in each of the above four areas and refine the schematic design or the master layout plan (MLP) until our client is satisfied.

In Hong Kong, for certain large-scale developments, a master layout plan (MLP) is required to be submitted to the Lands Department for approval. The master layout plan (MLP) must be endorsed by an authorised person before submission.

In the PRC, the schematic design is required to be submitted to the planning bureau (規劃局) for approval. The schematic design must be endorsed by an enterprise with relevant design qualification before submission. Before the acquisition of LWK Yiheng, our Group or the developer would engage a PRC design enterprise with the relevant design qualification. After finalizing the schematic design, the same would be passed to that enterprise for endorsement and statutory submission to the planning bureau (規劃局) for approval. After the acquisition of LWK Yiheng, since we possess the Grade A Qualification, we are entitled to endorse the finalised schematic design for submission.

Obtaining approval from the relevant departments or authorities are usually considered as the completion of this stage.

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Design development (深化設計)

After the schematic design stage or the master layout plan (MLP) has been approved and confirmed, we will further refine the plans and elaborate on the elevation design and coordinate with the other consultants engaged by the client to ensure the design can be constructed. For instance, we will co-ordinate with the structural engineer to work out the structural column dimensions, and the electrical and mechanical engineer to work out the plant room sizes and locations.

In Hong Kong, a general building plan (GBP), which shows the refined plans, sections and elevations of the development, is required to be submitted to the Building Authority for approval. The general building plan (GBP) must be endorsed by an authorised person before submission.

In the PRC, the preliminary design (初步設計), which concludes the results of the design development, is required to be submitted to the construction bureau (建設局) for approval. Similar to the schematic design, the preliminary design must also be endorsed by an enterprise with relevant design qualification before submission. Before the acquisition of LWK Yiheng, our Group or the developer would engage a PRC design enterprise with the relevant design qualification. After finalizing the preliminary design, the same would be passed to that enterprise for endorsement and statutory submission to the construction bureau (建設局) for approval. After the acquisition of LWK Yiheng, since we possess the Grade A Qualification, we are entitled to endorse the finalised preliminary design for submission.

After the general building plan (GBP) or the preliminary design has been approved and confirmed, we will co-ordinate with the structural engineer and quantity surveyor to carry out the tendering procedures to appoint a suitable contractor to carry out the foundation works of the buildings in the property development.

Construction documentation (施工圖設計)

In this stage, we will develop the construction details of the building to ensure that the purpose of the design can be properly delivered in the final construction stage and will use the general building plan (GBP)/preliminary design completed in the previous stage as a base, and prepare a set of construction documentation to be included in the tender package for the tendering for the main contractors and the related sub-contractor(s) for construction.

To complete the tender package for contractors, we will coordinate with other consultants engaged by our client to complete the entire set of tender drawings, which include the structural drawings from the structural engineer, and electrical and mechanical drawings from the electrical and mechanical engineer, and the bills of quantities (if any) from the quantity surveyor.

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In Hong Kong, the construction documentation must be prepared according to the approved general building plan (GBP). Otherwise, the general building plan (GBP) must be revised and re-submitted to the Building Authority for approval.

In the PRC, the construction documentation, is required to be submitted to the relevant construction bureau for approval. The construction documentation must be endorsed by an enterprise with relevant design qualification before submission. Before the acquisition of LWK Yiheng, our Group or the developer would engage a PRC design enterprise with the relevant design qualification. After finalizing the construction documentation, the same would be passed to that enterprise for endorsement and statutory submission to the construction bureau (建設局) for approval. After the acquisition of LWK Yiheng, since we possess the Grade A Qualification, we are entitled to endorse the construction documentation for submission.

Construction works (施工階段跟進工作)

Our duties in the construction works stage are generally the inspection and coordination of the construction works carried out by the contractor. We will review and approve the assembly drawings and shop drawings prepared by the contractors, make periodic visits to the site to ensure the quality and safety of the construction works, and issue certificates and carry out other administrative duties required by our clients.

In Hong Kong, we will also carry out the statutory duties of an authorised person as required under the provisions of the Building Ordinance.

In the PRC, the duties of inspection at the construction works stage are carried out by an engineering supervision institution (工程監理單位), which is also a licensed professional body. As such, in a PRC property development, our involvement mostly ends upon the approval of the tender/construction drawings. Nevertheless, some of our clients are willing to continue to retain us in the construction works stage to carry out certain administrative duties.

Building completion

Depending on the terms of the service contract, building completion is considered as either passing the inspection of the building by the relevant regulatory authority or after passing such inspection, the expiry of a certain period, for example, the defect liability period. We will assist our client to pass the inspection, and if necessary, to co-ordinate with different parties in a property development if any rectification work is required.

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Roles and services performed by our subsidiaries

The following table sets forth a summary of the roles and services performed by our subsidiaries before and after our acquisition of LWK Yiheng and the regulatory requirements applicable to the business operations of each of them:

Name of subsidiary ^(Note 1)	Before acquisition of LWK Yiheng	After acquisition of LWK Yiheng	Regulatory requirement applicable to the business operations
LWK Hong Kong	<i>Projects located in Hong Kong</i>		
	Principal role: Architectural consultant		
	Service: Provision of service of architecture, landscape architecture, town planning, interior design and heritage conservation from conceptual design to building completion	Same	Architecture: registered architect, authorised person and corporate member of HKIA Landscape architecture: registered landscape architect and registered practice of HKILA Town planning: registered professional planner Interior design: no particular licensing requirement Heritage conservation: no particular requirement For details of the regulatory requirement, please refer to the section headed “Regulatory Overview — Hong Kong”.
	<i>Projects located in the PRC</i>		
	Principal role: Architectural consultant	Same	
	Service: Provision of service of architecture under the three situations as described above		No particular licensing requirement relating to the business operations ^(Note 4)
	<i>Projects located in other markets</i>		
	Principal role: Architectural consultant	Same	
	Service: Provision of service of architecture from conceptual design to building completion		No particular licensing requirement relating to business operations in that jurisdiction because we co-operate with the local architectural companies with the relevant statutory licences and/or qualifications in that jurisdiction.

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Name of subsidiary ^(Note 1)	Before acquisition of LWK Yiheng	After acquisition of LWK Yiheng	Regulatory requirement applicable to the business operations
LWK Conservation	Principal role: Consultant to heritage conservation Service: Provision of service of heritage conservation to projects located in Hong Kong	Same	No particular licensing requirement relating to the business operations
LWK Macau	N/A ^(Note 2)	Principal role: Architectural consultant Service: Provision of service of architecture from conceptual design to building completion	No particular licensing requirement relating to business operations in that jurisdiction because we co-operate with the local architectural companies with the relevant statutory licences and/or qualifications in that jurisdiction.
LWK Yiheng	N/A	Principal role: Architectural consultant Service: Provision of service of architecture from conceptual design to building completion to projects located in the PRC including the arrangement of the submission of design and documentation to the relevant bureaus in the PRC for approval (for details, please refer to scope of service eligible to be provided with the Grade A Qualification described above)	Grade A Qualification (for details of the licensing requirements, please refer to the sections headed "Regulatory Overview — The PRC — A. Laws and regulations relating to the industry" and "Business — Regulatory Compliance — Grade A Qualification of LWK Yiheng")
LWK Shenzhen	Principal role: Architectural consultant Service: Provision of service of architecture under the three situations as described above	Same ^(Note 3)	No particular licensing requirement relating to the business operations ^(Note 4)
LWK Guangzhou	N/A ^(Note 2)	Principal role: As back-up office to provide support to our project teams Service: N/A	No particular licensing requirement relating to the business operations

BUSINESS

Notes:

- (1) Helffrich Ventures is an investment holding company incorporated on 15 January 2013 and it did not and had not carried on any business activities during the Track Record Period and as at the Latest Practicable Date and therefore has no separate disclosure in the above table.
- (2) LWK Macau and LWK Guangzhou had not yet been incorporated before the acquisition of LWK Yiheng.
- (3) During the Track Record Period, our Group also generated revenue in the PRC through LWK Shenzhen. The role of LWK Shenzhen in PRC projects of our Group will gradually diminish and its role will gradually be replaced by LWK Yiheng.
- (4) As advised by our PRC Legal Advisers, it was legitimate for LWK Hong Kong and/or LWK Shenzhen, without the Grade A Qualification or any other design qualifications, to provide, and as confirmed by the Company, LWK Hong Kong and/or LWK Shenzhen only provided, the architectural service in the PRC under the following three situations:
 - (i) LWK Hong Kong and/or LWK Shenzhen were involved in the consultancy services of specific item engineering design (專項工程設計) which did not require design qualification pursuant to the Circular on Design Qualification Standards and the Circular on Application of Specific Design Qualification;
 - (ii) LWK Hong Kong and/or LWK Shenzhen were involved in the conceptual design only; or
 - (iii) LWK Hong Kong and/or LWK Shenzhen were required to cooperate with a PRC design enterprise with the relevant design qualification if LWK Hong Kong and/or LWK Shenzhen provided the architectural service on or after the schematic design.

Further, if statutory submission of designs and documentation to the relevant bureaus in the PRC for approval was required in certain stages of work in a PRC property development, LWK Hong Kong and/or LWK Shenzhen, or the developer would need to engage a PRC design enterprise with the relevant design qualification to arrange for such statutory submission.

As advised by our PRC Legal Advisers, the operations of LWK Hong Kong and/or LWK Shenzhen in the PRC were in full compliance with all the relevant PRC laws, rules and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Please also refer to the paragraph headed "Operating Procedures — Project Implementation" above in this section and the section headed "Regulatory Overview — The PRC".

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MAJOR CONTRACT TERMS

The following describes the general major terms and conditions of the service contracts entered into by us with our clients:

Scope of work

The service contract will provide our role, the works we are required to complete and the work progress in the development.

As to our role in the project, we may be engaged to provide the service of architecture, landscape architecture, town planning, interior design and/or heritage conservation. Since we are a comprehensive architectural service provider, we are usually engaged by our client to perform more than one role in the development, i.e. being our client's consultant of architecture and town planning in certain stage(s) of development carried out by our client.

As to our work and responsibilities in the development, we may be engaged to focus on producing designs, which involves the production of design drawings, schedules, diagrams, models or to focus on project administration, which is about the overall planning, coordination and supervision of the project.

Terms of payment

In general, our service fee is paid on a lump sum basis and is divided into various portions. Our service fee is paid in separate stages according to the progress of the project. In general, additional service fee will be awarded in the following three situations:

1. changes to the scope of work;
2. major design changes by our client; and
3. rescheduling the timetable of the development as decided by our client.

In the above situations, we will enter into a supplemental agreement with our client.

Based on the understanding and industry knowledge of our Directors and our experience in operating our business, supplemental service contracts are not uncommon in the architectural service industry with a relatively long service duration (i.e. from around 2 to 5 years). The major contract terms of the supplemental service contract are usually (i) the scope of the additional work; (ii) the additional service fee; and/or (iii) the reason(s) of entering into the supplemental service contract or charging the additional service fee. Our additional service fee under the supplemental service contract is generally calculated with reference to the following factors: (i) the nature of the additional work; (ii) the amount of the additional work; (iii) the risk of the additional work; and (iv) the service fee of the original service contract.

BUSINESS

For the two years ended 31 December 2012, we had entered into 28 supplemental service contracts with our clients out of the 392 projects we were involved in during the same period. The additional service fees involved in these supplemental agreements amounted approximately to HK\$43.3 million, of which approximately HK\$6.3 million and HK\$1.8 million were contributed to our revenue and net profit respectively for the two years ended 31 December 2012, representing approximately 1.3% and 4.5% of our total revenue and net profit during the same period, respectively. The progress billings receivable from contract customers arisen from supplemental agreement as at 31 December 2012 was approximately HK\$2.1 million, representing approximately 2.9% of the total progress billings receivable from contract customers as at the corresponding year end.

During the Track Record Period, we were involved in three projects which were suspended or failed to complete and the aggregate remaining contract sum involved amounted to approximately HK\$22.0 million. For details please refer to section headed "Risk Factors — Risks relating to our business — Our service fee may not be paid in full due to suspension or failure of our client's projects".

Typical duration of service contract and production and payment cycle

In the architectural service industry, the duration of the service contract and length of production and payment cycle vary with a number of factors, including but not limited to, project type, project scale, complexity, role and scope of service under the service contract. Based on the understanding and industry knowledge of our Directors and our experience in operating our business, typical duration of service contract of our projects and actual length of production and payment cycle under each of our major projects, are set forth below:

Practice area	Typical duration of service contract of our projects^(Note 1)	Average duration from contract execution to completion and full payment of the contract sum during the Track Record Period and up to the Latest Practicable Date^(Note 2)
Architecture	44 to 63 months	[53] months
Landscape architecture	6 to 36 months	[16] months
Town Planning	3 to 9 months	[6] months
Interior design	11 to 43 months	[27] months
Heritage conservation	9 to 24 months	[16] months

BUSINESS

Notes:

1. For practice areas such as landscape architecture and interior design, the duration of service contract may vary to a large extent. For landscape architecture and interior design projects in full scope of service (i.e. in relation to property development), the duration of service contract is relatively longer (i.e. 36 months or more). For some other landscape architecture and interior design projects of relatively small scale, the duration of service contract ranges from several months to a year.
2. For architecture projects, after the building completion, our works and responsibilities under the service contract have been fully performed. Nevertheless, in general, under the service contract, the final portion of the payment to us, which usually amounts to around 5% of the total contract sum, is to be payable after the developer finishes the main construction contract final account or defect liability period, as the case may be. In some projects, the time to prepare and finalise the main construction contract final account by the developer may take up to 18 to 24 months depending on the terms of the service contract.

Our service fee is paid in separate stages according to the achievement of a specific milestone as set out in the service contract. In general, the achievement of the milestones is agreed upon the two basis: (i) if statutory submission to relevant authorities for approval is required under the particular work stage, upon the approval from the relevant authorities; or (ii) if statutory submission to relevant authorities for approval is not required under the particular work stage, upon the satisfaction of our client to the work. The following two tables set forth the major milestones usually involved in a typical project in Hong Kong and the PRC respectively:

Hong Kong ^(Note 1)

Work stage	Description	Percentage of fee (%)
1.	Upon signing of appointment	5.0
2.	Upon completion of the inception, feasibility studies and conceptual design	5.0
3.	Upon completion of the outline schematic design	10.0
4.	Upon completion of the submission to the Building Authority in respect of first general building plan (GBP) with preparation of all necessary plans, calculation, etc. and obtain approval of the general building plan (GBP) by all relevant departments	10.0
5.	Upon completion of the design development	10.0
6.	Upon completion of the construction documentation	20.0
7.	Upon award of the foundation contract to the contractor responsible for the foundation works of the buildings in the development	3.0
8.	Upon award of the main contract to the main contractor	7.0
9.	Upon issuance of consent to commence main contract work from the Building Authority	5.0

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Work stage	Description	Percentage of fee (%)
10.	Upon completion of foundation works	6.0
11.	Upon completion of superstructural works	7.0
12.	Upon acknowledgment of the completion or issuance of occupation permit	7.0
13.	Upon issuance of certificate of completion of making good defects	5.0
Total:		100.0

Note:

1. Based on the understanding and industry knowledge of our Directors and our experience in operating our business, the table above represents a typical construction project in Hong Kong where we are engaged by our client to provide service from conceptual design to building completion. The actual work stage and percentage of fee may vary from case-to-case.

The PRC *(Note 1)*

Work stage	Description	Percentage of fee (%)
1.	Upon signing of appointment	5.0
2.	Upon completion and client's approval of comprehensive planning document for building ("修建性詳細規劃文件") for reporting to the government authorities	4.5
3.	Upon completion of the schematic design document ("方案設計文件") for reporting to the government authorities	3.0
4.	Upon approval of schematic design document ("方案設計文件") by the relevant government authorities	1.5
5.	Upon completion of preliminary design document ("初步設計文件") for reporting to the government authorities	5.5
6.	Upon approval of preliminary design document ("初步設計文件") by the relevant government authorities	2.5
7.	Upon completion of building, structural and integrated electrical and mechanical installation drawings ("建築、結構及綜合機電施工圖") for reporting to the government authorities	7.0

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Work stage	Description	Percentage of fee (%)
8.	Upon approval of building, structural and integrated electrical and mechanical installation drawings (“建築、結構及綜合機電施工圖”) by the relevant government authorities	3.0
9.	Upon issuance of construction engineering planning permit (“建築工程規劃許可證”) from the relevant government authorities	5.0
10.	Upon completion of tender drawings and documents of construction engineering main contractor (“土建總承包工程”) for tendering purpose	10.0
11.	Upon completion of contract drawings and documents of construction engineering main contractor (“土建總承包工程”) for signing of contracts	10.0
12.	Upon approval by client of the tender drawings and tender documents of all the major stipulated subcontracting work, e.g. heating pipes, electrical appliances, plumbing and drainage system, aluminium doors and windows, glass curtain walls, fire services, interior design (fine decoration), etc.	10.0
13.	Within the contractual period of construction engineering main contractor, payment by installment in accordance with the proportion between approved engineering costs (“核定工程款”) and total contract price (unforeseeable charges (“不可預見費”) exclusive) with each period of a minimum length at two calendar months	18.0
14.	Upon approval of building, structural and integrated electrical and mechanical installation drawings (“建築、結構及綜合機電施工圖”) by the relevant government authorities	5.0
15.	Upon issuance of certificate of integrated quality control and completion (“綜合質檢竣工證書”) and occupation permit (“入戶許可證”)	5.0
16.	Upon issuance of certificate of completion of making good defects (“缺陷保修完成證書”)	3.0
17.	Upon issuance of the final account of the contracts of main contractor and all sub-contractors (“本工程總承包及所有分包的合同決算書”)	2.0
Total:		100.0

Note:

- Based on the understanding and industry knowledge of our Directors and our experience in operating our business, the table above represents a typical construction project in the PRC where we are engaged by our client to provide service from conceptual design to building completion. The actual work stage and percentage of fee may vary from case-to-case.

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Copyright and ownership of plans

In general, the copyright in all drawings and in the work executed from us will remain our property unless otherwise agreed.

Termination

We or our client can terminate the service contract by serving a prior written notice to the other party. The notice period ranges from one month to three months depending on the terms of the service contract. Upon such termination, our client is required to settle our outstanding service fee under the service contract. Our outstanding service fee will usually be calculated up to the stage of work and the extent of work in any incomplete stage up to the date of termination. Upon termination and settlement of our outstanding service fee, we are required to return all documents, plans or drawings in our possession in relation to the project to our client.

Insurance

The developers in Hong Kong and the PRC in most situations require us to maintain a professional indemnity insurance under the service contract. The limit of indemnity required under the service contract generally depends on the project sum or the preference of certain developers. For more information about our insurance, please refer to the paragraph headed "Insurance" in this section below.

Quality issue

To the best knowledge of our Directors, in the architectural service industry, there is no warranty period for service provided.

In general, our quality of service is controlled by

- (i) the terms of the service contract;
- (ii) the statutory duties prescribed under the relevant regulations; and
- (iii) the applicable codes of professional conduct,

which usually continue to be applicable against us after the completion of the project (where appropriate). If our quality of service does not conform to the service contract or is in breach of the relevant regulations or codes of professional conduct, we may not be entitled to the service fee under the service contract, may incur civil or criminal liability and/or commits a disciplinary offence, even if subsequently discovered after the completion of the project. As advised by our legal advisers as to Hong Kong laws, in general the limitation period for our client to sue us under the service contract governed by Hong Kong laws for damages is 6 years from the date of our default. As advised by our PRC Legal Advisers, the limitation of action for our client to sue us under the service contract governed by the PRC laws for

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damages is generally two years from the date when the client knows or should know his or her rights have been infringed upon.

We have taken out professional indemnity insurance to cover our potential liability arising from the claims against us under the service contracts. For more information about our insurance, please refer to the paragraph headed "Insurance" in this section below.

We do not notice there was any major quality issue and relevant loss incurred due to any major quality issue during the Track Record Period.

OUR CLIENTS

The amount of our service fee and payment schedule are determined by the service contract with our client.

Our project is divided into different stages and our entitlement to each portion of our service fee depends on our completion of a certain type of work up to that particular stage of the project under the service contract. We issue an invoice to our client for each portion of our service fee when our services have been completed at a particular stage. We usually grant a credit period of 90 days and up to 180 days to our clients. In most scenarios, our clients settled our invoice by cheque or telegraphic transfer.

The following table sets forth the details of our five largest clients during the Track Record Period:

Client	Background	Year ended 31 December		Six months ended		Length of business relationship with our Group as at the Latest Practicable Date		
		2011	2012	30 June 2013	Rank			
		Approximate % of our revenue	Rank	Approximate % of our revenue	Rank	Approximate % of our revenue	Rank	
Client A	HK Blue-chip Developer	(Note)	(Note)	12.7%	(1)	9.9%	(2)	5 years or above but less than 10 years
Client B	HK Blue-chip Developer	14.1%	(1)	9.9%	(2)	6.3%	(5)	over 15 years
Client C	PRC developer	(Note)	(Note)	7.6%	(3)	(Note)	(Note)	1 year or above but less than 5 years
Client D	HK Blue-chip Developer	9.2%	(3)	6.9%	(4)	(Note)	(Note)	10 years or above but less than 15 years
Client E	PRC developer	(Note)	(Note)	5.6%	(5)	6.7%	(4)	less than 1 year
Client F	HK Blue-chip Developer	11.4%	(2)	(Note)	(Note)	(Note)	(Note)	5 years or above but less than 10 years
Client G	HK Blue-chip Developer	7.2%	(4)	(Note)	(Note)	(Note)	(Note)	over 15 years
Client H	HK Blue-chip Developer	5.9%	(5)	(Note)	(Note)	10.5%	(1)	5 years or above but less than 10 years
Client I	HK unlisted developer	(Note)	(Note)	(Note)	(Note)	8.5%	(3)	1 year or above but less than 5 years
Total revenue attributable to our five largest clients		47.8%		42.7%		41.9%		

Note: Only the figures and rankings of our five largest clients of each of the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 are shown in this table.

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For each of the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the aggregate revenue attributable to our five largest clients amounted to HK\$94.9 million, HK\$114.6 million and HK\$62.3 million, respectively, representing 47.8%, 42.7% and 41.9% of our total revenue, respectively. For each of the same periods, the revenue attributable to our largest client amounted to HK\$28.1 million, HK\$33.9 million and HK\$15.6 million, respectively, representing 14.1%, 12.7% and 10.5% of our total revenue, respectively.

To our Directors' best knowledge, none of our Directors or their associates, or any of our Shareholders who own more than 5% of our Company's share capital, had any interest in any of our Group's five largest clients during the Track Record Period.

OUR SUPPLIERS

Our suppliers are the sub-consultants engaged by us in our projects. In general, we engage our sub-consultants for the ancillary and supporting services in the projects, such as model making, animation, computer graphic design, curtain-wall design and engineering consultancy.

We select our sub-consultants carefully as maintain a list of approved sub-consultants who are assessed by our contract department from time to time. When a project is awarded to us, the project director will review and reconfirm the resources to be placed in the project, including the engagement of sub-consultants, if any. We select our sub-consultants with reference to a number of factors, including (i) experience of sub-consultants such as their job reference and projects involved; (ii) performance in previous engagements with our Group as advised by our Directors, members of senior management or project architects; (iii) sub-consultancy services appraisal reports prepared by our contract department on the sub-consultant's corporate background and industry performance; (iv) tender price. Our Directors confirmed that it is our policy to diversify our base of sub-consultants which offer competitive prices.

In general, we are liable to our clients for our works no matter whether such works are done by our staff or by our sub-consultants. Since our sub-consultants are engaged to provide ancillary and supporting services to us in the projects and we will monitor and keep track of their works from time to time and we will not provide our sub-consultant's works to our clients directly.

As advised by our legal advisers as to Hong Kong laws and our PRC Legal Advisers, we have legal rights to hold our sub-consultants liable for any loss and damages suffered by our Group or if their works are not in accordance with the requirements set out in the sub-consultancy agreements.

Based on the understanding and industry knowledge of our Directors and our experience in operating our business, in practice, we may not be able to hold our sub-consultants liable if they are engaged for provision of model making, animation or computer graphic design services, whereas we may be able to hold our sub-consultants liable if they are engaged for provision of engineering consultancy services as some of such sub-consultants are registered structural engineer in Hong Kong and are subject to statutory requirements and liabilities under relevant legislations, in particular, the Building Ordinance.

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Our Directors confirmed that we do not enter into standard contracts with our sub-consultants and the terms in our sub-consultancy agreements vary from one project to another.

The service fee and payment schedule for our sub-consultants are determined by our sub-consultancy agreements entered into with our sub-consultants.

After we confirm to engage our suppliers, they usually grant us a credit period for 30 to 60 days. In most situations, we settle the invoice by cheque or telegraphic transfer.

Our suppliers engaged by us in our project are not our major clients, nor vice versa. For details of our clients, please refer to the paragraph headed "Our Clients" in this section above.

The following table sets forth the details of our five largest suppliers during the Track Record Period:

Supplier	Background	Year ended 31 December		Six months ended		Length of business relationship with our Group as at the Latest Practicable Date		
		2011	2012	30 June 2013				
		Approximate % of our total costs of services	Rank	Approximate % of our total costs	Rank	Approximate % of our total costs	Rank	
Supplier A	A design and engineering consultancy	(Note)	(Note)	1.3%	(1)	(Note)	(Note)	10 years or above but less than 15 years
Supplier B	A rendering and animation company	0.9%	(2)	0.7%	(2)	0.5%	(4)	1 year or above but less than 5 years
Supplier C	A building services consultancy	0.5%	(4)	0.6%	(3)	1.1%	(2)	over 15 years
Supplier D	A model production company	(Note)	(Note)	0.6%	(4)	(Note)	(Note)	1 year or above but less than 5 years
Supplier E	An architectural design company	1.2%	(1)	0.5%	(5)	1.1%	(1)	5 years or above but less than 10 years
Supplier F	A design and engineering consultancy	0.5%	(3)	(Note)	(Note)	(Note)	(Note)	10 years or above but less than 15 years
Supplier G	A building services consultancy	0.5%	(5)	(Note)	(Note)	(Note)	(Note)	over 15 years
Supplier H	An architectural design company	(Note)	(Note)	(Note)	(Note)	0.9%	(3)	10 years or above but less than 15 years
Supplier I	A rendering and animation company	(Note)	(Note)	(Note)	(Note)	0.4%	(5)	5 years or above but less than 10 years
Total costs of services attributable to our five largest suppliers		3.6%		3.7%		4.0%		

Note: Only the figures and rankings of our five largest suppliers of each of the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 are shown in this table.

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For each of the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the aggregate sub-consultancy fee paid to our five largest suppliers amounted to HK\$5.6 million, HK\$7.8 million and HK\$4.2 million, respectively, representing 3.6%, 3.7% and 4.0% of our total costs of services, respectively. For the same period, the sub-consultancy fee to our largest supplier amounted to HK\$1.9 million, HK\$2.8 million and HK\$1.8 million, respectively, representing 1.2%, 1.3% and 1.1% of our total costs of service, respectively.

To our Directors' best knowledge, none of our Directors or their associates, or any of our Shareholders who own more than 5% of our Company's share capital, had any interest in any of our five largest suppliers during the Track Record Period.

SALES AND MARKETING

Our Group principally obtains business by invited tendering. As such, we consider that enhancing our Group's reputation in the property development sector and encouraging referral from our existing clients are the two fundamental elements forming our marketing strategies.

We believe that effective marketing strategies are important to our business development. Our corporate communications department is responsible for planning and executing marketing strategies. In Hong Kong, promotional activities by an architectural service company, such as placing advertisement or conducting marketing activity in the public are restricted (for more details of the rules and regulations about the architectural service industry in Hong Kong, please refer to the section headed "Regulatory Overview — Hong Kong"). As such, our marketing strategy is executed through events and exhibitions, and our corporate social responsibility activities.

During the Track Record Period, we had organised or co-organised several forums, seminars, exhibitions and architectural studio events in Hong Kong and the PRC with academic institutions and professional bodies in the architectural service industry.

We believe that high brand awareness may enhance our reputation within the development and construction industry, generate further business opportunities and attract new developer clients. Moreover, we believe that the [●] will be a breakthrough in promoting our Group to the general public, thus further enhancing our brand and continued future business development.

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AWARDS AND ACCREDITATION

In recognition of our outstanding performance and quality of works, we have received 15 major awards in the recent years. The following table sets forth the details of some of our awards:

No	Award Name	Awarding Organisation(s)
1.	2013 — BCI Asia Top 10 Architects Awards Hong Kong	The BCI Asia Construction Information Pte. Ltd.
2.	Focus China Architects Awards 2013	The BCI Asia Construction Information Pte. Ltd.
3.	2012 — 15th Shenzhen Engineering Survey and Design Selection, Third Prize (Public Architecture) — The Pavilion Hotel, Shenzhen (2012年深圳市第十五屆優秀工程勘察設計評選公共建築三等獎 — 中海康城大酒店)	Shenzhen Exploration & Design Association (深圳市勘察設計行業協會)
4.	2012 — 15th Shenzhen Engineering Survey and Design Selection, Second Prize (Residential Design) — Guanlan County, Shenzhen (2012年深圳市第十五屆優秀工程勘察設計評選住宅建築二等獎 — 觀瀾觀湖園)	Shenzhen Exploration & Design Association (深圳市勘察設計行業協會)
5.	2012 — 15th Shenzhen Engineering Survey and Design Selection, Second Prize (Residential Design) — The Royal Lakefront III — Royal Villa, Shenzhen (2012年深圳市第十五屆優秀工程勘察設計評選住宅建築二等獎 — 中海熙岸世家)	Shenzhen Exploration & Design Association (深圳市勘察設計行業協會)
6.	2012 — China Civil Engineering Zhantianyou Award, Excellent Planning Residential Development — Eastern Garden (2012年中國土木工程詹天佑獎住宅小區優秀規劃工程 — 中海萬錦東苑)	China Civil Engineering Society (中國土木工程學會)
7.	2012 — BCI Asia Top 10 Architects Awards Hong Kong	The BCI Asia Construction Information Pte. Ltd.
8.	2011 — BCI Asia Top 10 Architects Awards Hong Kong	The BCI Asia Construction Information Pte. Ltd.
9.	2011 — Honorable Mention in UNESCO Asia-Pacific Awards for Cultural Heritage Conservation — SCAD Hong Kong — Former North Kowloon Magistracy Building (2011年聯合國教科文組織亞太地區文化遺產保育獎 — 薩凡納藝術設計(香港)學院 — 前北九龍地方法院)	United Nations Educational, Scientific and Cultural Organization (UNESCO) and Macao Foundation (澳門基金會)

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No	Award Name	Awarding Organisation(s)
10.	2010 — China Civil Engineering Zhantianyou Award, Excellent Planning Residential Development — Qian Tang Shan Shui (2010年中國土木工程詹天佑優秀住宅小區金獎 — 中海•錢 塘山水)	China Civil Engineering Society (中國土木工程學會)
11.	2009 — China Civil Engineering Zhantianyou Award, Golden Award of Excellent Residential Developments —Royal Lakefront, Suzhou (2009年中國土木工程詹天佑優秀住宅小區金獎 — 蘇州熙岸 花園)	China Civil Engineering Society (中國土木工程學會)
12.	2008 — China Civil Engineering Zhantianyou Award, Golden Award of Excellent Residential Developments — No. 1 Lakeside Palace, Suzhou (2008年中國土木工程詹天佑優秀住宅小區金獎 — 蘇州湖濱 1號)	China Civil Engineering Society (中國土木工程學會)
13.	2008 — Global Human Settlements Award — The Best Community of Global Human Settlements — Royal Lakefront, Suzhou (2008年全球人居環境最佳社區獎 — 蘇州半島華府)	Global Forum on Human Settlements; and United Nations Human Settlement Programme (UN-Habitat) (聯合國人類 住區規劃署)
14.	2008 — Certificate of Good Design Selection — Entrance Gate of Kimpo Gochon, HILLSTATE, Korea (2008年韓國優秀設計大獎 — Entrance Gate of Kimpo Gochon, HILLSTATE)	Korea Institute of Design Promotion
15.	2007 — Certificate of Good Design Selection — Yong-in Sang-Hyun, HILLSTATE Tower Type Apartment, Korea (2007年韓國優秀設計證書 — Yong-in Sang-Hyun, HILLSTATE Tower Type Apartment)	Korea Institute of Design Promotion

In addition, LWK Hong Kong has obtained the certificate of ISO 9001 in compliance with the requirements of ISO 9001:2008 quality management system standard, which is applicable to the provision of architectural service for Hong Kong projects.

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MAJOR QUALIFICATIONS

As at [30 June 2013], we had the following major licences/qualifications and our Directors consider that all these major licences/qualifications are important to our operations:

Licences/ Qualifications	Location	Expiry date	Minimum number of licenced/qualified employees that we must maintain from time to time
Band 1 List of Consultants of AACSB	Hong Kong	No expiry date but subject to annual review and rebinding exercise by AACSB	10 qualified architects ^(Note 1) at least 3 of whom must be Authorised Persons
Grade A Qualification	The PRC	29 September 2018	3 PRC Class 1 Registered Architects, 3 PRC Class 1 Registered Structural Engineers, 2 PRC Registered Building Service Engineers and 1 PRC Registered Electrical Engineer
Corporate membership in HKIA	Hong Kong	No expiry date	at least one director is a foundation member, a member or a fellow of HKIA
List of Registered Practices under HKILA	Hong Kong	No expiry date but subject to annual renewal	at least one landscape principal having professional or fellow HKILA membership
HKIP List of Planning Consultants	Hong Kong	No expiry date	at least one full member of the HKIP

Note:

1. Qualified architect means corporate member of the HKIA or a Registered Architect or an Authorised Person.

As advised by our PRC Legal Advisers, apart from the Grade A Qualification, our Group is not required to obtain any other licences/qualifications to carry out our operations in the PRC.

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[As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, in order to apply for the Grade A Qualification, a design enterprise shall have a certain number of licensed/qualified employees: 3 PRC Class 1 Registered Architects (一級註冊建築師), 3 PRC Class 1 Registered Structural Engineers (一級註冊結構工程師) and 2 PRC Registered Building Service Engineers (註冊公用設備工程師) and 1 PRC Registered Electrical Engineer (註冊電氣工程師).] [Besides, as advised by our PRC Legal Advisers, when a design enterprise with the Grade A Qualification carries out its operations in the PRC, there are generally no requirements in respect of the minimum number of the licensed/qualified employees to be involved in a project in accordance with the PRC laws and regulations.] [In general, the licensed/qualified employees of a design enterprise are legally entitled to cooperate with the non-licensed/non-qualified employees of the same design enterprise to jointly complete a project.] [Nevertheless, for certain projects of special types, there are requirements set forth by the local administrative department of construction to determine the number of licensed/qualified employees, the number of non-licensed/non-qualified employees and the ratio between them to be involved in those projects.]

[In the event that our Grade A Qualification is revoked or terminated by the relevant authorities, as advised by our PRC Legal Advisers, it will still be legitimate for our Group to provide certain architectural service in the PRC without the relevant design qualification.] [On operational level, we will be required to cooperate with a PRC design enterprise with the relevant design qualification if we provide the architectural service on or after the schematic design.] [For details please refer to paragraph headed "Operating procedures — Project implementation" above in this section.] [As such, our Group will no longer be eligible to provide all relevant technical, consulting and project management services in a PRC development from conceptual design to building completion totally on our own capacity and our financial performance and reputation would be adversely affected.]

[The qualifications of the (i) Band 1 List of Consultants of AACSB; (ii) corporate membership in HKIA; (iii) a participant in the list of Registered Practices under HKILA and; (iv) a participant in the HKIP List of Planning Consultants are important to our Group especially in the aspect of reputation.] [While there is no specific ranking system in the architectural service industry in Hong Kong, the entry barrier of Band 1 List of Consultants of AACSB is higher than the other two bands.] [Further, the project value of the projects that the architectural service companies in the Band 1 List of Consultants of AACSB are eligible to bid for is the highest among the three bands.] [As such, our Directors are of the view that the banding of architectural service providers serves as a guideline for property developers to select eligible service providers.] [In addition, we consider that the qualifications of the corporate membership in the HKIA, Registered Practice under HKILA and HKIP List of Planning Consultants are good indicators of our wide recognition by professional bodies in Hong Kong.] [In the event that these qualifications are revoked or terminated for any reasons, our reputation, which we believe to be crucial to our business, and financial performance may be adversely affected.] [While we rely on our professional staff who possess relevant licences/qualifications to render the comprehensive architectural service to our clients, our Directors believe that the status of the major qualifications of our Group, namely (i) the inclusion in the Band 1 List of Consultants of AACSB; (ii) the corporate membership in the HKIA; (iii) the

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inclusion in the Register of Practices under HKILA and; (iv) the inclusion in the HKIP List of Planning Consultants do not have material impact to our operations.]

As advised by our legal advisers as to Hong Kong laws, our Group is still eligible to perform relevant professional activities in accordance with the relevant laws and regulations even if our corporate membership in the HKIA is terminated or we are not in the Register of Practices under HKILA and HKIP List of Planning Consultants.

As at 30 June 2013, our employees had the following major licences/qualifications:

Licences/Qualifications	Location	Number
Architecture		
Hong Kong Registered Architect*	Hong Kong	49
HKIA Member*	Hong Kong	49
Authorised Person*	Hong Kong	11
PRC Class 1 Registered Architect (中國一級註冊建築師)*	PRC	12
PRC Class 1 Registered Architect Qualification (中國一級註冊建築師資格)	PRC	2
PRC Class 1 Registered Structural Engineer (中國一級註冊結構工程師)*	PRC	6
PRC Registered Building Service Engineer (中國註冊公用設備工程師)*	PRC	2
PRC Registered Electrical Engineer (中國註冊電氣工程師)*	PRC	2
PRC Senior Engineer (中國高級工程師) Engineer (工程師)	PRC	11 27
Overseas Registered Architect (<i>Note 1</i>)	Overseas	12
Overseas Architect Professional Member (<i>Note 2</i>)	Overseas	9
Town Planning		
Registered Town Planner*	Hong Kong	1
HKIP Member	Hong Kong	3
PRC Registered Town Planner Qualification (中國註冊城市規劃師資格)	PRC	1
Landscape Architecture		
Registered Landscape Architect*	Hong Kong	3
HKILA Member*	Hong Kong	3
HKILA Accredited Arboricultural Practitioner	Hong Kong	1
ISA Certified Arborist	USA	1
ISA Certified Tree Risk Assessor	USA	1
Heritage Conservation		
Hong Kong Institute of Architectural Conservationists (HKICON) Member	Hong Kong	2

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Licences/Qualifications	Location	Number
Chinese Commission for the International Council on Monuments and Sites Member (中國古蹟遺址保護協會會員)	PRC	1
Others		
Registered Inspector	Hong Kong	1
Beam Pro	Hong Kong	12
LEED	USA	12

* Our Directors consider that these licences/qualifications held by our employees are crucial to our operation as we have to maintain the minimum number of licenced/qualified employees in respect of the major licences/qualifications held by our Group.

Notes:

- 1 Including: Architects Registration Board of Victoria (Australia)
Board of Architects of New South Wales (Australia)
Bureau of Commercial Services — Architect License (US)
Ontario Association of Architects (Canada)
Bureau Architectenregister (Netherlands)
Architects Registration Board (UK)
- 2 Including: Australian Institute of Architects (Australia)
Royal Architectural Institute of Canada (Canada)
The Royal Institute of British Architects (UK)

Our Group understands the importance of maintaining sufficient qualified employees to fulfill the requirements of our major licences/qualifications considered critical to our operations. On the managerial level, it is our personnel policy to recruit and retain more qualified employees than the minimum requirements under our major licences/qualifications at all times. On operational level, our human resources and administration department maintains a list of qualified employees from time to time to keep track on licensing status and number. In the event that any of these qualified employees resign from our Group or is involved in licensing matters, we will update and review the list of qualified employees to ensure that we have sufficient qualified employees to fulfill the requirements of our major licences/qualifications. If our human resources and administration manager identifies any risk of shortfall in the number of qualified employees, he will inform our Directors who will then look into the situation and make necessary arrangements to recruit additional professional staff to ensure ongoing compliance. In order to cope with the continuous demand for our professional services from clients, we will recruit quality professional staff from time to time to join our Group.

Our Directors are of the view that the above measures are effective and adequate as during the Track Record Period and up to the Latest Practicable Period given that (i) our number of qualified employees for each of our major licences/qualifications has been greater than the minimum requirement; and (ii) our major licences/qualifications are valid and have never been revoked or terminated by the relevant authorities.

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EMPLOYEES AND EMPLOYEE BENEFITS

Our Group has over 550 employees. The following table sets forth the number of our staff by functional role as at 30 June 2013:

	Number of Staff		Total
	Hong Kong	The PRC	
Management	4	5	9
Architecture	137	327	464
Landscape architecture	9	3	12
Town planning	4	–	4
Interior design	9	3	12
Heritage conservation	6	–	6
Finance ^(Note 1)	7	14	21
Administration ^(Note 2)	22	20	42
	198	372	570
	198	372	570

Notes:

1. Our finance department includes our (i) accounting department and (ii) contracts department.
2. Our administration department includes our (i) corporate communications department, (ii) human resources and administration department; and (iii) information technology department.

Being a service provider, manpower is our most valuable asset. Therefore, we consider that the maintenance of sufficient and high quality manpower is crucial to our Group's productivity. Therefore, we have implemented a staff policy, generally divided into three parts: (a) recruitment; (b) training and development; and (c) employees' benefit.

Recruitment

Our Group recruits newly graduated students from the architectural or design schools of universities in Hong Kong, the PRC and the USA regularly. We also maintain long-term relationships with various universities, including the University of Hong Kong and the Chinese University of Hong Kong, where we recruit our newcomers. As at the Latest Practicable Date, we were the sponsor of the Research and Development Studio Programme of the University of Hong Kong, the sponsor of the graduation degree show of the Chinese University of Hong Kong and annual high table dinner of Architectural Society of the University of Hong Kong.

Occasionally, we also recruit senior staff, especially those with particular specialties. We believe that this will inject new ideas to our Group and increase the diversification of our Group.

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Training and development

According to the requirements set out by HKIA, all registered architects are required to complete a number of continuing professional development (CPD) programs each year. For details of the CPD requirements, please refer to the section headed "Regulatory Overview — Continuing professional development (CPD)".

In addition to the CPD programs, our Group's training and development package is also provided to our junior and senior professional staff.

For junior professional staff, they are required to complete in-house training program conducted by our associate architects, which is organised in order to assist our junior staff to prepare for the ARB Professional Assessment, a professional examination for admission as a registered architect in Hong Kong, in order to qualify as a registered architect in Hong Kong.

For senior professional staff, our development program is more interactive. We organize a sharing session each week. In this session, different teams will share their works with the audience, for example, our design department colleagues will share their drawings or models, and our planning department colleagues will choose one or two new projects and share the conceptual designs and planning ideas therein with other staff. We also encourage our junior staff to participate in these sharing sessions which will, in our Directors' view, broaden their horizons for their career.

Every year, we will second our professional staff to different offices so that they could have the opportunity to exchange ideas and work in a different working environment in order to enhance the professional exposure of our staff.

Employees' benefit

We provide a competitive package of remuneration to our staff. It is our Group's policy to revise the salary of our staff annually with reference to the salary surveys conducted by human resource consulting firms and an industry association, being the Association of Architectural Practices in Hong Kong as a guideline. We also carry out research and analysis on the level of salary.

CREDIT RISK AND CASH FLOW MANAGEMENT

Our credit risk and cash flow management controls are implemented by a team of seven staff from our accounting department and contract department, three of whom are professionally qualified or conferred as cost engineer (造價工程師) in the PRC by the Hebei Province Title Reform Leading Group Office (河北省職稱改革領導小組辦公室), accountant in the PRC by the Ministry of Finance and medium-level accounting professional (中級會計) in the PRC by the Personnel Department of Guangdong Province (廣東省人事廳), and monitored by our finance and accounting director, Ms Yu Wing Sze. For details on her experience and qualification, please refer to the section headed "Directors, Senior Management and Staff".

We principally obtain business by invited tendering. All of the invitations to tender received by us will be reviewed by our management, details of which are set out in the

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section headed "Business — Operating Procedures — Invitation to tender". In the event that the invitation to tender is from a new client, our contract department will conduct a preliminary evaluation to assess the creditworthiness of the new client through obtaining information from public sources and our contacts in the industry in order to assist our management in deciding whether to accept the invitation. If the project is awarded to us eventually, our contract department and accounting department will then conduct a client acceptance evaluation to assess its credit quality with reference to a number of factors, including its corporate background, reputation, financial position and industry performance. Credit limit and credit period in respect of the project will be assigned upon completion of the client acceptance evaluation.

After we are awarded a project, either from existing or new client, our contract department and the respective project team, monitored by our accounting department, will establish (i) an invoicing schedule setting out the approximate time to issue invoice according to the draft work plan and milestone payment schedule as stipulated in the service contract; and (ii) a budget cost plan setting out the relevant details including the budget time costs, resources allocation and sub-consultant fee estimation. Upon the completion of a particular stage of work or when the project status reaches the milestone to issue invoice as agreed on the service contract, our project team will inform our accounting department to issue an invoice to our client. Our accounting department will also review the status of any outstanding invoices and the status of the settlement of such project and/or client alongside with our project team. In order to minimise the credit risk, our contract department and accounting department will jointly remind the client of any outstanding invoices and is responsible for monitoring the procedures to ensure that follow-up action is taken to recover overdue debts. We generally offer credit period of 90 days and up to 180 days to our clients. The invoicing schedule will be updated every month which is from time to time inspected by our project directors. In order to minimise the credit risk our accounting department will evaluate the credit limits of clients regularly.

In general, our clients settle the payment in full within the stipulated period. For each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our debtors' turnover days were 50.3 days, 96.6 days and 88.2 days, respectively, which were consistent with our general credit period offered to our clients.

In addition to the abovementioned credit policies, we have also implemented certain measures to minimise the effect of cash flow mismatch.

On the operational level, we keep track of our project progress and time and costs involved through reporting and time sheet policies. We require our staff to fill in daily time sheet, stipulating the work carried out and time spent by them, on that particular day. Every week, our project leaders will report to our Directors the progress of the projects and time spent on each project during the weekly meeting so that our Directors will be able to keep track of the time and costs incurred to the projects. In the event that there are any time and costs overruns, our Directors will look into the issue and make necessary arrangements to reallocate the resources to avoid further overrun.

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On the managerial level, the accounting department will prepare a group-based cash flow forecast after taking into account the expected settlement of invoices, monthly expenses of our Group. Our Directors will have monthly meeting to review the status of outstanding invoice and settlement and the forecast cash flow.

Based on the above, our Directors consider, and the [●] concurs, that our Group's credit risk and cash flow management measures are adequate and effective for our current operations.

QUALITY CONTROL AND RISK MANAGEMENT

Our quality control measures are in two-fold, being on the managerial level and the operational level.

On the managerial level, our executive Directors and senior management are familiar with the operations of our Group, and are responsible for the quality control measures and supervision of our operations in all aspects, including cooperation between our departments and offices in different locations. For more information about our executive Directors and senior management, please refer to the section headed "Directors, Senior Management and Staff".

On the operational level, all our works, such as reports and drawings are reviewed by our associate director/senior associate or staff with a higher grade before they are issued to our clients or the relevant regulatory authorities for approval.

Further, we require our staff to fill in daily time sheet, stipulating the work carried out and time spent by them, on that particular day. The data in these daily time sheets will be entered into our internal computer system for our analysis and record. This system serves the following purposes:

- (a) to analyse the capacity of our Group to engage in new projects;
- (b) to avoid uneven distribution of work; and
- (c) to observe the performance and productivity of each staff, and consider whether particular training to him/her is necessary.

We recognise the importance of providing quality service to our client. We aim not only to complete the work in accordance with the scope as set out in the service contract, but also to meet our clients' expectations. As such, our Directors regularly meet with our clients, whether previous or existing, to evaluate the quality of our service provided.

Our major operating subsidiary, LWK Hong Kong, has obtained the certificate of ISO 9001 in compliance with the requirements of ISO 9001:2008 quality management system standard, which is applicable to the provision of architectural consultancy services for Hong Kong projects. This recognition shows that our quality control measures are in line with international standards.

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MARKET AND COMPETITION

The competitive environment of the architectural service industry in Hong Kong is intense and fierce. On the other hand, the construction industry in the PRC is expanding rapidly due to the rapid urbanisation rate. As such, the competitive environment of the architectural service industry in the PRC is less intense. For more information about the market of the architectural service industry in Hong Kong and the PRC, please refer to the section headed "Industry Overview".

We consider that our competitive advantages have contributed to our success. As such, even though the competition within the architectural service industry in Hong Kong and the PRC will continue to be fierce and intense in the future, we are confident that we are able to withstand the intense competition with our competitive advantages. For further details of our competitive advantages, please refer to the paragraph headed "Our Competitive Advantages" in this section above.

We consider that the entry barrier of the architectural services industry in both Hong Kong and the PRC is high. For details of the entry barrier in both Hong Kong and the PRC, please refer to the two sections headed "Industry Overview — Architectural Service Industry in Hong Kong — Entry barrier of the architectural service industry in Hong Kong" and "Industry Overview — Architectural Service Industry in the PRC — Entry barrier of the architectural service industry in the PRC", respectively. In addition, our major operating subsidiaries, LWK Hong Kong is placed in the Band 1 List of Consultants of AACSB and LWK Yiheng possesses the Grade A Qualification. For details of the minimum entry criteria of Band 1 List of Consultants of AACSB and Grade A Qualification, please refer to the two sections headed "Industry Overview — Architectural services in Hong Kong — Classification of architectural service providers in Hong Kong" and "Regulatory Overview — The PRC — Laws and Regulations Relating to the Industry — Construction Engineering Design Qualification" respectively.

INSURANCE

We maintain proper insurance policies for our operations, which cover risks including loss as a result of damage to office properties, business interruptions and money protection. We also hold insurance policies relating to employee's compensation under the PRC laws. We review these insurance policies from time to time to ensure that the coverage is adequate. For each of the two years ended 31 December 2012 and six months ended 30 June 2013, our insurance expenses were approximately HK\$2.5 million, HK\$3.2 million and HK\$2.1 million, respectively.

We have also taken out professional indemnity insurance to cover our potential liability arising from the claims against us under the service contracts. In general, one of the common pre-qualifications of tendering is that the coverage of the professional indemnity insurance must exceed a certain amount. As such, we consider that the coverage of our professional indemnity insurance is sufficient to meet such criteria for tendering purposes.

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Having regard to the current operations of our Group and the prevailing industry practice, our Directors are of the view that the level of insurance coverage maintained by our Group (i) is typical and in line with the industry practice; and (ii) is adequate for our current operations.

Social Insurances and Housing Provident Fund

We are required, for the benefit of our employees, to make social insurance contributions (which include contributions to various funds in the PRC, such as pension insurance, medical insurance, unemployment insurance, occupation injuries and maternity insurance) under the relevant PRC laws and regulations. We currently make social insurances contributions, including but are not limited to, pension insurance, medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing provident fund contributions for our employees in compliance with the relevant PRC laws and regulations.

According to the laws and regulations of the PRC, an enterprise established in the PRC is also required to make contributions to a government-administered housing provident fund for our employees. As advised by our PRC Legal Advisers, we have complied with all relevant labour laws and social welfare laws and regulations in the PRC in all material respects.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had registered four domain names, five trademarks in Hong Kong and three trademarks in the PRC.

Information relating to the intellectual property rights of our Company is set out in the paragraph headed "B. Further Information about our Business — 2. Intellectual property rights" in Appendix IV.

As at the Latest Practicable Date, we had not received any claims against our Group for infringement of any trademarks nor was our Group aware of any pending or threatened claims in relation to such actual or potential infringement.

As at the Latest Practicable Date, we were not aware of any infringement (i) by our Group of any intellectual property rights owned by any third parties; or (ii) by any third party of any intellectual property rights owned by us. During the Track Record Period, there had not been any pending or threatened claims made against us, nor have there been any claims made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

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PROPERTY

We do not own any real property as at the Latest Practicable Date. The following table sets out the addresses, approximate gross floor areas and the terms of the properties leased by us as at the Latest Practicable Date:

No.	Address	Usage	Approximate gross floor area (Sq. ft.)	Term	Monthly rent
1.	15/F, North Tower, World Finance Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong	Office	18,305	From 1 March 2011 to 28 February 2014	HK\$466,777.50 ^(Note 1)
2.	Suite 604, 6/F, South Tower, World Finance Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong	Office	2,623	From 21 October 2013 to 20 October 2016	HK\$91,805.00 ^(Note 1)
3.	Unit D on 19/F, Vigor Industrial Building Phase I, No. 49-53 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong	Warehouse	2,752	From 13 July 2013 to 12 July 2015	HK\$15,500.00 ^(Note 4)
4.	Room 2105-2107, 21/F, Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	4,425	From 1 January 2013 to 31 December 2014	RMB78,112.80 ^(Note 2)
5.	Room 2101-2103, 2108-2111, 21/F, Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	10,998	From 1 January 2013 to 31 December 2014	RMB194,128.70 ^(Note 2)

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No.	Address	Usage	Approximate gross floor area (Sq. ft.)	Term	Monthly rent
6.	Room 1106, 11/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	573	From 1 January 2013 to 31 December 2014	RMB7,718.00 ^(Note 2)
7.	Room 1107, 11/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	2,291	From 1 January 2013 to 31 December 2014	RMB30,856.00 ^(Note 2)
8.	Room 1108, 11/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	650	From 1 January 2013 to 31 December 2014	RMB8,757.00 ^(Note 2)
9.	Room 1109, 11/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	1,300	From 1 January 2013 to 31 December 2014	RMB17,513.00 ^(Note 2)
10.	Room 1110, 11/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC ^(Note 4)	Office	1,300	From 1 January 2013 to 31 December 2014	RMB17,513.00 ^(Note 2)

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No.	Address	Usage	Approximate gross floor area (Sq. ft.)	Term	Monthly rent
11.	Room 907-909, 9/F., Block A, Aerospace Skyscraper Building, southeast side of the intersection between Shenan Road and Xinzhou Road (4109 Shenan Road), Futian District, Shenzhen, Guangdong, the PRC	Office	4,203	From 4 April 2013 to 31 December 2014	RMB66,387.00 ^(Note 2)
12.	Room 24C03, North Tower, Suntec Plaza, No. 197 Guangzhou Da Dao Road Bei, Yuexiu District, Guangzhou, Guangdong, the PRC	Office	2,656	From 1 October 2013 to 30 June 2014	RMB23,439.00 ^(Note 2)
13.	Room 2103, 21/F., Oriental Plaza, No.11 Zidonglou Street, Dongda street, Chengdu, the PRC	Office	1,074	From 1 February 2013 to 31 January 2014 From 1 February 2014 to 31 January 2015 From 1 February 2015 to 31 January 2016 From 1 February 2016 to 31 January 2017 From 1 February 2017 to 31 January 2018	RMB9,980.00 ^(Note 2) RMB10,578.80 ^(Note 2) RMB11,213.53 ^(Note 2) RMB11,886.18 ^(Note 2) RMB12,599.75 ^(Note 2)
14.	Room 3303, 3305, 3307, 3309, 3311, 3313 and 3315, No. 121-3 Nanjing South Street, Heping District, Shenyang City, the PRC	Office	1,292	From 20 June 2013 to 19 June 2014	RMB61,250.00 ^(Note 2)
15.	Room 3312, 3316 and 3318, No. 121-3 Nanjing South Street, Heping District, Shenyang City, the PRC	Office	646	From 20 June 2013 to 19 June 2014	RMB26,250.00 ^(Note 2)
16.	Room 120, Block 2, Huan Zhong Building, No, 175 Xian Yang South Road, Xu Hui District, Shanghai, the PRC	Office	215	From 1 August 2012 to 31 July 2015	RMB1,272 ^(Note 2)

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Notes:

1. The monthly rent is inclusive of government rent and property tax but exclusive of rate, management fee and other outgoings.
2. The monthly rent is exclusive of the management fee and other outgoings.
3. According to the tenancy agreement dated 7 January 2013 entered into between the landlord and LWK Yiheng, Mr. Wang was named as the tenant of the property and registered under the relevant PRC authorities. Pursuant to a written confirmation dated 23 July 2013 jointly issued by the landlord, LWK Yiheng and Mr. Wang, it is confirmed that (i) the property is occupied by LWK Yiheng for office use; (ii) LWK Yiheng has been paying the rent, management fee and all other outgoings since the commencement date of the tenancy agreement; and (iii) the landlord, LWK Yiheng and Mr. Wang have agreed to file an application to the relevant authorities to modify the registration details of the tenancy agreement in accordance with the relevant laws and regulations.
4. The monthly rent is inclusive of government rent, rate, property tax and management fee but exclusive of other outgoings.

LICENSES AND PERMITS

Our Directors confirmed that, and each of the legal advisers of our Company as to Hong Kong laws, PRC laws and Macau laws, respectively, advised that, save as disclosed in the paragraphs below, our Group had obtained all necessary licences, approvals and permits, which were required to carry on our Group's activities in Hong Kong, the PRC and Macau, respectively, during the Track Record Period.

Grade A Qualification of LWK Yiheng

On 2 April 2011, LWK Yiheng became a sino-foreign joint venture, details of which are set out in the section headed "History, Reorganisation and Group Structure — Our Major Operating Subsidiaries — LWK Yiheng (PRC)". Pursuant to Notice (No. Jian Shi 229 [2007]) issued by the Ministry of Construction in relation to the approval of qualification due to change of business type, reorganisation or separation of a construction engineering enterprise (建設部關於建設工程企業發生改制、重組、分立等情況資質核定有關問題通知(建市[2007]229號)), LWK Yiheng had to apply and obtain re-approval of the Grade A Qualification from MOHURD when LWK Yiheng changed its business type to a sino-foreign joint venture.

LWK Yiheng filed the first re-approval application of the Grade A Qualification after changing its business type in April 2011. Our Company was not aware that MOHURD did not process the first re-approval application successfully due to insufficient documents, which was published in August 2012. While we appointed our PRC Legal Advisers in relation to the laws of the PRC for the [●] purposes, our PRC Legal Advisers identified the abovementioned in March 2013. LWK Yiheng then furnished supplemental documents for the re-approval of the Grade A Qualification promptly and the re-approval application was accepted on 29 May 2013 by MOHURD. Pursuant to Jian Ban notice of acceptance no. 31 [2013] issued by the general office of MOHURD on 2 August 2013 in relation to the opinion about the examination of the qualification of construction engineering enterprise (住房和城鄉建設部辦公廳8月2日公佈的《關於建設工程企業資質審查意見的公示》(建辦受理函[2013]31號)), (i) LWK obtained the re-approval of the Grade A Qualification; and (ii)

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granted by MOHURD, the re-approved Grade A Qualification would become effective after the expiry of the publicity period from 5 August 2013 to 16 August 2013. On 29 September 2013, MOHURD issued a new Grade A Qualification to LWK Yiheng for a term of 5 years commencing from 29 September 2013 and expiring on 29 September 2018.

According to the Regulations on Qualification Management^(Note), a design qualification shall be deregistered and the qualification licensing authority shall announce the invalidity of such design qualification certificate under any of the following circumstances:

- (i) the term of validity of the design qualification certificate has expired and no renewal application is filed in accordance with the relevant PRC laws;
- (ii) the enterprise terminates (ceases to conduct business) in accordance with the relevant PRC laws;
- (iii) the design qualification certificate has been revoked, withdrawn or suspended in accordance with the relevant PRC laws; or
- (iv) other circumstances as specified by the relevant PRC laws or regulations.

Note: For details please refer to the section headed "Regulatory Overview — The PRC — A. Laws and regulations relating to the industry".

The Company noted the fact that:

- (i) no announcement was made by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳) stating that the Grade A Qualification of LWK Yiheng was invalid;
- (ii) during the process of the re-approval application, the Grade A Qualification of LWK Yiheng was within its term of validity;
- (iii) during the process of the re-approval application, the Grade A Qualification of LWK Yiheng was not revoked, withdrawn or suspended in accordance with the relevant PRC laws;
- (iv) during the process of the re-approval application, LWK Yiheng has been conducting its business within the business scope of its business licence and its Grade A Qualification;
- (v) during the process of the re-approval application, LWK Yiheng did not fall into any of the abovementioned circumstances as specified by the Regulations on Qualification Management.

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The management of the Group understood that the Grade A Qualification of LWK Yiheng remained valid and effective during the re-approval application period and LWK Yiheng was eligible to undertake relevant PRC projects within the original term of validity, commencing from 12 March 2010 and expiring on 12 March 2015. Such an understanding was confirmed by the Company's PRC Legal Advisers and during the interview with the Department of Housing and Urban-Rural Development of Guangdong Province on 27 June 2013. As advised by our PRC Legal Advisers, (i) the officer consulted in the interview is competent to represent the Department of Housing and Urban-Rural Development of Guangdong Province, and (ii) the Department of Housing and Urban-Rural Development of Guangdong Province is competent to provide such confirmation as it is the preliminary examination department for the re-approval application of Grade A Qualification and the direct administrative authority for the architectural design companies in the Guangdong Province. Accordingly, as advised by our PRC Legal Advisors, LWK Yiheng is unlikely to be fined by MOHRUD or the Department of Housing and Urban-Rural Development of Guangdong Province for continuing to undertake PRC architectural work before the re-approval of its Grade A Qualification was granted.

INTERNAL CONTROL

Our Group has maintained an internal control system into its organisational structure. We have established an internal control department to review and monitor our on-going compliance of the [●] and the relevant Hong Kong and PRC laws and regulations and report to the audit committee directly. For details on the internal control department, please refer to the paragraph headed "Regulatory Compliance — Actions to ensure future compliance" in this section.

In preparation of the [●], we have engaged an independent external consulting firm as our internal control adviser (the "**Internal Control Adviser**") in February 2013 to undertake a detailed evaluation on the effectiveness of our internal control system on internal control environment, risk assessment, internal control activities, information and communication, anti-fraud procedures, financial reporting and disclosure controls, income management, costs and expenses, human resources and remuneration, financial management and information technology. Our Internal Control Adviser mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its clients including listed companies and companies preparing for [●] in Hong Kong. The key members of the engagement team from our Internal Control Adviser are qualified accountants and internal auditors.

Our Internal Control Adviser completed the first review and follow-up review of our internal control system in March 2013 and July 2013, respectively. According to the results of the follow up review by the Internal Control Adviser on 11 July 2013, we have adopted the internal control measures and rectified the weaknesses in our internal control system as recommended by the Internal Control Adviser. The details of the major findings

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and recommendations provided by the Internal Control Adviser and status of implementation by our Group as at the Latest Practicable Date are as follows:

Major Findings	Recommendations	Status of Implementation
<ul style="list-style-type: none">• Our Group did not have a comprehensive office handbook, in particular, the code of ethics and code of conduct.	<ul style="list-style-type: none">• Our Group should set up a comprehensive office handbook and require all staff to acknowledge the receipt of office handbook and to comply with the code of ethics and code of conduct.	<ul style="list-style-type: none">• Our Group has made improvements in the office handbook and in particular, the code of conduct and principles of work ethics have been added to it.
<ul style="list-style-type: none">• Our Group's mechanism of information disclosure should be improved.	<ul style="list-style-type: none">• Our Group should establish an information disclosure system, including investor relations management mechanism and a comprehensive corporate communication mechanism.	<ul style="list-style-type: none">• Our Group has adopted an information disclosure policy to enhance our investor relations practices and corporate communication.
<ul style="list-style-type: none">• Our Group's anti-fraud mechanism should be enhanced to satisfy the requirements of a listed company.	<ul style="list-style-type: none">• Our Group should consider establishing independent channels of monitoring fraud, appropriate handling approach and reporting mechanisms and monitoring procedures.	<ul style="list-style-type: none">• The principles when dealing with fraud and relevant reporting mechanisms have been added to our office handbook.
<ul style="list-style-type: none">• Our Group's client relationship management had to be improved.	<ul style="list-style-type: none">• Our Group should improve the client relationship management system, with clear guidelines on development, assessment and selection of clients.	<ul style="list-style-type: none">• Our Group has revised our preliminary evaluation and client acceptance evaluation to assess our clients, details of which are set out in the paragraph headed "Credit Risk and Cash Flow Management" above in this section.

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Major Findings	Recommendations	Status of Implementation
<ul style="list-style-type: none">• Our Group's information technology management system had to be updated.	<ul style="list-style-type: none">• Our Group should update the information technology management system.	<ul style="list-style-type: none">• Our Group has updated computer and information system user guidelines, particularly on information safety management, software management, internet management, data backup.
<ul style="list-style-type: none">• Our Group's sub-consultant management system had to be improved.	<ul style="list-style-type: none">• Our Group should maintain proper records on the assessment of sub-consultants and request sub-consultants to provide written quotation and compile a comparison list on the fees of different sub-consultants.	<ul style="list-style-type: none">• Our Group has updated evaluation forms and quotation approval forms on sub-consultants accordingly and updated the list of qualified sub-consultants.
<ul style="list-style-type: none">• Our Group had no offsite data backup and recovery test on data backup.	<ul style="list-style-type: none">• Our Group should improve data backup management measures to execute offsite data backup and carry out regular recovery tests on data backup.	<ul style="list-style-type: none">• Our Group has executed offsite data backup and carried out recovery tests on data backup.

Our Internal Control Adviser had not identified any further issues on our internal control system in its follow-up review in July 2013.

Having considered that (i) the professional nature of our business; (ii) the regulatory environments of the architectural service industry in Hong Kong and the PRC; (iii) the establishment of the internal control department; (iv) the past non-compliance incidents of our Group; and (v) the major findings and recommendations provided by the Internal Control Adviser, the Directors consider, and the [●] concurs, that our Group's enhanced internal control measures are adequate and effective in respect of the compliance with [●] of the [●].

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REGULATORY COMPLIANCE

Our Directors confirmed that, save as disclosed in the paragraphs below, our Group had complied with all relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities which may arise as a result of any non-compliance of our Group on or before the date on which the [●] becomes unconditional. Further details of the Deed of Indemnity are set out in the section headed "[●]".

During the Track Record Period and as at the Latest Practicable Date, our Group had been involved in certain non-compliance matters, details of which are summarized in the following table:

Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance
1. LWK Guangzhou Failed to make the first capital contribution within 90 days after establishment as required under the relevant laws of the PRC.	Delay of first capital contribution will render the approval certificate for the establishment of LWK Guangzhou invalid. As advised by our PRC Legal Advisers, delay in the first capital contribution does not affect the subsistence of LWK Guangzhou given that the time of delay in the said capital contribution was short and LWK Guangzhou had already passed the 2012 annual inspection for wholly foreign-owned enterprise (外商投資企業聯合年檢). Hence, no provisions have been made.	Due to unintended and inadvertent omission of the relevant officers who had been responsible for arranging capital contribution to LWK Guangzhou as a result of their inadequate understanding of the relevant rules and practices in the PRC and lack of proper system and control to keep track of our compliance status.

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Directors or senior management involved in the non-compliance	Rectification actions and status as of the Latest Practicable Date	Measures to prevent any future breaches and ensure on-going compliance
<p>Mr. Liang, our executive Director, was the director of LWK Guangzhou at the material time.</p>	<p>According to the capital verification report issued by a PRC accounting firm dated 9 March 2013, 15.65% of the registered capital of LWK Guangzhou had been paid up by LWK Hong Kong on 28 February 2013.</p> <p>LWK Guangzhou had already passed the 2012 annual inspection for wholly foreign-owned enterprise (外商投資企業聯合年檢) in 2013.</p>	<p>We have engaged an independent external consulting firm as our Internal Control Adviser to undertake an evaluation of our internal control procedures and to recommend action plans for improvements. Since July 2013, our internal control measures, policies and procedures have been codified in our new internal operational manual, which have been adopted and implemented by us, after taking into account of the comments from our internal control adviser. For details on our actions to ensure future compliance please refer to the paragraph headed "Regulatory Compliance — Actions to ensure future compliance" below in this section.</p>

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Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance and tax position in respect of the relevant period
<p>2. Failure to lay the audited accounts made up to a date falling not more than nine months under section 122 of the Companies Ordinance.</p> <p>("Accounts-related Non-Compliance Matters").</p> <p>LWK Hong Kong Audited accounts for the financial years ended 31 March 1996, 2002, 2003 and 2009 were prepared but not laid at the annual general meeting within nine months.</p>	<p>Fine of HK\$300,000 and 12 months of imprisonment.</p> <p>Since our legal advisors as to Hong Kong laws, after consulting and considering the legal opinion from a Hong Kong barrister, suggested that there is no financial impact to our Group, no provision has been made in our Group's financial statements. Hence, no provisions have been made.</p>	<p>Due to unintended and inadvertent omission of the relevant officers who had been responsible for company secretarial and corporate administrative matters as a result of their inadequate understanding of the relevant regulatory requirements and lack of proper system and control to keep track of our compliance status.</p> <p>Specific reasons for each incident of non-compliance are as follows:</p> <p>LWK Hong Kong LWK Hong Kong was incorporated on 19 October 1995 but only commenced its business operation in September 1996. The directors considered the combination of the accounts for the period from the incorporation to 31 March 1996 with the accounts for the year ended 31 March 1997 would reflect the real picture of the business for the abovementioned period. Accordingly, the first audited accounts covered the period from 1 September 1996 to 31 March 1997 and were laid in an annual general meeting on 15 December 1997.</p> <p>The then auditors, in general, would commence their auditing works on LWK Hong Kong in or around September, such auditing works would take around one month to complete and the auditors would sign off the audited accounts in or around November. In August 2002, there was a change of the accounting manager of LWK Hong Kong. Although there was proper handing-over by the resigned accounting manager to the new accounting manager, the new accounting manager still took some time to get himself familiarized with the business of LWK Hong Kong. Accordingly the auditors took more time to finish their auditing works. The audited accounts for the year ended 31 March 2002 was only signed off by the auditors on 30 January 2003, and therefore, the audited accounts was only laid and approved in a general meeting on 30 January 2003.</p>

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Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance and tax position in respect of the relevant period
		<p>For the year ended 31 March 2003, LWK Hong Kong made a loss, the then directors were under the impression that the Inland Revenue Department of Hong Kong (the "IRD") would allow the extension of the due date for filing profits tax return under such circumstances. As such, the audit was completed later than usual and the audited accounts for the year ended 31 March 2013 was only signed off on 14 February 2004. Our Company laid the relevant audited accounts promptly in a general meeting on the same day.</p>
		<p>In 2009, LWK Hong Kong changed its accounting software, accordingly, the auditors had to audit both the old and the new accounting softwares. Though the auditors commenced their auditing works in August, around a month earlier than they usually did, the auditing time they finally spent on was longer than expected. The audited accounts for the year ended 31 March 2009 were only signed off by the auditors on 5 February 2010, and were only laid and approved in a general meeting on 5 February 2010.</p>
		<p>Despite the non-compliance, the profits tax in respect of the relevant years were paid to the IRD within the prescribed timeframe.</p>

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Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance and tax position in respect of the relevant period
<p>LWK Conservation Audited accounts for the six financial years ended 31 December 2011 (the "Six Financial Years") were not laid at the annual general meetings within nine months.</p>		<p>LWK Conservation LWK Conservation had no business activities from the date of incorporation (i.e. 12 June 2006) to about September 2010. The IRD issued a letter to LWK Conservation dated 14 July 2010, which (i) confirmed LWK Conservation had not commenced its business or had not earned any assessable profits; and (ii) required LWK Conservation to report to the IRD once it had earned any assessable profit. LWK Conservation started to conduct business after September 2010 and did not record any assessable profits for the two years ended 31 December 2011. Due to inadequate understanding of the relevant regulatory requirements, the then directors of LWK Conservation took in account the letter issued by the IRD and was not aware of the requirements under section 122 of the Companies Ordinance. As such, the directors were under the impression that no audited accounts had to be prepared and it was not necessary to lay its audited accounts in the annual general meetings of LWK Conservation.</p>

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Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance and tax position in respect of the relevant period
		<p data-bbox="871 378 1358 693">LWK Conservation recorded a net profit and assessable profit for the financial year ended 31 December 2012. As such, audited accounts for the Six Financial Years and the financial year ended 31 December 2012 were prepared in 2013 and laid in the extraordinary general meeting on 5 September 2013. Accordingly, the audited accounts for the financial year ended 31 December 2012 were laid within nine months under section 122 of the Companies Ordinance.</p> <p data-bbox="871 729 1358 1366">On 15 August 2013, the tax representative of LWK Conservation informed the IRD that LWK Conservation derived assessable profits in the financial year ended 31 December 2012 by submitting the tax computations and audited accounts for the three financial years of 31 December 2012 to the IRD and requesting the IRD to issue a tax return. The IRD issued tax returns for the three financial years ended 31 December 2012 to LWK Conservation on 8 October 2013 and such tax returns were submitted to the IRD within the required time frame on 31 October 2013. According to the tax returns and tax computation prepared by the tax representative, LWK Conservation generated an adjusted loss for each of the two financial years ended 31 December 2011 respectively, reconfirming LWK Conservation had no assessable profits for the corresponding years and fulfilled the instruction on the letter issued by the IRD dated 14 July 2010.</p>

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Directors or senior management involved in the non-compliance	Rectification actions and status as of the Latest Practicable Date	Measures to prevent any future breaches and ensure on-going compliance
<p>Mr. Liang and Mr. Fu, our executive Directors, were the directors of LWK Hong Kong and LWK Conservation at the material time.</p>	<p>Audited Accounts Our then Directors of LWK Conservation immediately arranged for audit to the Six Financial Years ended 31 December 2011 by the certified public accountants firm in Hong Kong when it was discovered in late 2012. All audited accounts for the Six Financial Years have been prepared.</p> <p>Failure to lay the audited accounts The relevant audited accounts of LWK Hong Kong were subsequently laid in the relevant general meetings in a few months after the required time frame (i.e. within nine months) whereas audited accounts of the Six Financial Years of LWK Conservation were subsequently laid in September 2013. Our directors of LWK Hong Kong and LWK Conservation have applied to the Court of First Instance of the High Court of Hong Kong to extend the period for laying accounts in general meetings and/or by way of written resolutions pursuant to section 122 of the Companies Ordinance on 17 July 2013 and 24 September 2013, respectively. The hearing dates of LWK Hong Kong's application and LWK Conservation's application are fixed on 26 February 2014 and 18 December 2013 respectively, and as at the Latest Practicable Date, we were still in the process of obtaining the relevant court order. In this regard, our legal advisors as to Hong Kong laws, after consulting and considering the legal opinion from a Hong Kong barrister, are of the view as below.</p>	<p>We had established an internal control department to review and monitor compliance of the [●] Rules and the relevant Hong Kong laws and regulation, details of which set out in the paragraph headed "Regulatory Compliance — Actions to ensure future compliance" below in this section.</p>
	<p>(i) <i>Likelihood to obtain court order</i></p> <p>It is highly likely to obtain the court order for both LWK Hong Kong's application and LWK Conservation's application, on the basis that (a) the then shareholders were also the then directors and were conversant with the financial position of LWK Hong Kong and/or LWK Conservation and were not prejudiced by the non-compliance; (b) the inadvertence will be adequately explained to the satisfaction of the Court; and (c) there is mechanism now put in place to ensure compliance with section 122 of the Companies Ordinance.</p>	

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Directors or senior management involved in the non-compliance	Rectification actions and status as of the Latest Practicable Date	Measures to prevent any future breaches and ensure on-going compliance
	<p data-bbox="624 342 970 374"><i>(ii) Imprisonment of the then directors</i></p> <p data-bbox="662 410 1038 853">It is unlikely for the then directors to be prosecuted because (a) non-compliance by LWK Hong Kong, and non-compliance by LWK Conservation for the audited accounts for the years ended 31 December 2006 to 2008 have already been out of the limitation period of three years; and (b) from the statistics available to the Court, the chance of prosecution is not high, in particular, there had been only one prosecution of directors of the breach of section 122 of the Companies Ordinance since about 1985.</p> <p data-bbox="624 889 938 921"><i>(iii) Financial impact on our Group</i></p> <p data-bbox="662 957 1038 1434">The penalty of fine applies only to the then directors of LWK Hong Kong or LWK Conservation rather than LWK Hong Kong or LWK Conservation. In addition, the relevant audited accounts of LWK Hong Kong and LWK Conservation have eventually been laid for approval and as to the best of the knowledge of our Directors, there is no monetary loss suffered by the then shareholders and/or directors of LWK Hong Kong and LWK Conservation as a result of the non-compliance. Therefore, there will be no financial impact to our Group.</p> <p data-bbox="624 1470 1034 1687">As such, our Directors are of the view that those non-compliance issues will be rectified within a short period after [●] and we will disclose the progress of rectification in the quarterly, interim/annual reports and detailed explanation for any delay in rectification.</p>	

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Details of the non-compliance	Maximum penalty for each instance of non-compliance and whether provisions have been made	Reasons for the non-compliance
<p>3. Filing of annual returns and notice of the corporate particulars or changes thereof:</p> <p>(a) return of first directors and secretary (LWK Hong Kong: 1996);</p> <p>(b) notice of change of directors or secretary or in their particulars (LWK Hong Kong: 1997);</p> <p>(c) notification of changes of secretary and directors (LWK Hong Kong: 1998, 2 counts in 2000);</p> <p>(d) annual return (LWK Hong Kong: 2000);</p> <p>(e) notification of resignation of secretary or director (LWK Hong Kong: 2000);</p> <p>(f) notification of change of secretary and director (appointment/cessation) (LWK Hong Kong: 2 counts in 2005);</p> <p>(g) statement of financial assistance for the acquisition of shares of LWK Hong Kong (LWK Hong Kong: 2007); and</p> <p>(h) notification of change of particulars of secretary and director (LWK Hong Kong: 2 counts in 2009, 2010; LWK Conservation: 2009, 2010)</p> <p>after the time specified in the Companies Ordinance ("General Non-Compliance Matters").</p>	<p>(a) Fine of HK\$5,000 and a daily default fine of HK\$200 for continued default.</p> <p>(b) Fine of HK\$5,000 and a daily default fine of HK\$200 for continued default.</p> <p>(c) Fine of HK\$10,000 and a daily fine of HK\$300 for continued default.</p> <p>(d) Fine of HK\$50,000 and a daily fine of HK\$700 for continued default.</p> <p>(e) Fine of HK\$10,000 and a daily fine of HK\$300 for continued default.</p> <p>(f) Fine of HK\$10,000 and a daily fine of HK\$300 for continued default.</p> <p>(g) Fine of HK\$50,000 and a daily default fine of HK\$1,300 for continued default.</p> <p>(h) Fine of HK\$10,000 and a daily fine of HK\$300 for continued default.</p> <p>As to the non-compliance of late filings relating to company secretarial matters with the Companies Registry, although the discretion to prosecute falls entirely on the Companies Registry and the Companies Ordinance specifies the relevant level of fines, we understand from our legal advisers as to Hong Kong laws that the Companies Registry does not prosecute each and every case of late filings or levy penalties. As advised by our legal advisers as to Hong Kong laws, even if the Companies Registry chooses to prosecute the relevant Hong Kong subsidiaries, with reference to the daily penalty rate imposed by the Court at their discretion for similar breaches in the past, the risk of imposing the aggregate penalties of more than HK\$1,000,000 is a low one. Therefore, our Directors consider such amount is not material to our Group's combined financial statements. In addition, our Controlling Shareholders have given an indemnity in favour of our Group in this connection. Accordingly, no provision for the penalties has been made by our Directors for the preparation of the financial information. Hence, no provisions have been made.</p>	<p>Due to unintended and inadvertent omission of the relevant officers who had been responsible for company secretarial and corporate administrative matters as a result of their inadequate understanding of the relevant regulatory requirements and lack of proper system and control to keep track of our compliance status.</p>

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Directors or senior management involved in the non-compliance	Rectification actions and status as of the Latest Practicable Date	Measures to prevent any future breaches and ensure on-going compliance
<p>Mr. Liang and Mr. Fu, our executive Directors, were the directors of LWK Hong Kong and LWK Conservation at the material time.</p>	<p>As at the Latest Practicable Date, LWK Hong Kong and LWK Conservation have already filed with the Hong Kong Companies Registry all relevant prescribed forms and/or notices in respect of the General Non-Compliance Matters, notwithstanding after the time specified in the Companies Ordinance. On 11 July 2013, LWK Hong Kong and LWK Conservation wrote to the Hong Kong Companies Registry seeking confirmation as to whether action will be taken against LWK Hong Kong and their then officers in relation to the General Non-Compliance Matters.</p> <p>On 19 August 2013, the Hong Kong Companies Registry replied it would not on its own initiative confirming that no action would be taken against LWK Hong Kong and LWK Conservation.</p> <p>As at the Latest Practicable Date, there had not been any prosecution initiated against any subsidiaries of our Group or the then or current directors of the any subsidiaries of our Group, nor had any of them been subject to any fine relating to the General Non-Compliance Matters.</p>	<p>We had established an internal control department to review and monitor compliance of the [●] and the relevant Hong Kong laws and regulation, details of which set out in the paragraph headed "Regulatory Compliance — Actions to ensure future compliance" below in this section.</p>

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Non-Compliance with the Companies Ordinance

We had not fully complied with the statutory requirements in sections 47F (which relates to filing the financial statement with the Companies Registry), 109 (which relates to filing the annual return with the Companies Registry), 122 (which relates to the tabling of audited accounts) and 158 (which relates to notifying the Companies Registry in relation to the registers of directors and secretaries) of the Companies Ordinance.

The then directors of LWK Hong Kong and LWK Conservation at that time may be subject to imprisonment sentence for 12 months, being the maximum penalty for committing each offence by breaching section 122 of the Companies Ordinance.

According to the experience of our legal advisers as to Hong Kong laws, the Registrar of Companies in Hong Kong does not prosecute all cases of non-compliances under the Companies Ordinance and if there is any prosecution, the chance of imposing imprisonment sentence is minimal. The main reason is because, as advised by our legal advisers as to Hong Kong laws, the purpose of section 122 of the Companies Ordinance is to protect the shareholders of a company by requiring the directors to table the audited accounts annually such that the shareholders would be aware of the financial position of the company annually. In stating so, since the then directors of LWK Hong Kong and LWK Conservation at that time were also the ultimate shareholders of LWK Hong Kong and LWK Conservation respectively, the failure of tabling the audited accounts did not prejudice the position of the shareholders of LWK Hong Kong and LWK Conservation. Further, the default was inadvertent and unlikely to be made again.

Our Group maintains sufficient qualified employees to fulfill the requirements of our major licenses/qualifications from the time to time. Even if the then directors of LWK Hong Kong and LWK Conservation may be subject to imprisonment, despite the remote likelihood, there will not be impact for us to meet the requirements for our major licenses/qualifications and therefore the suitability of [●] of our Company.

As at the Latest Practicable Date, there had not been any prosecution initiated against any subsidiaries of our Group or the then or current directors of the any subsidiaries of our Group, nor had any of them been subject to any fine relating to the Account-related Non-Compliance Matters and General Non-Compliance Matters.

Besides, section 351A of the Companies Ordinance provides that an offence under the Companies Ordinance may be prosecuted only if the prosecution is initiated (amongst others) within 3 years after the commission of the offence. Therefore, any non-compliances committed in [2009] or earlier are time-barred.

In light of the above, our legal advisers as to Hong Kong laws are of the view that the likelihood of imprisonment sentence being imposed on any of our Directors is low.

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Actions to ensure future compliance

In preparation of the [●], we have engaged an independent external consulting firm as our Internal Control Adviser to undertake an evaluation of our internal control system and to recommend action plans for improvements. Having considered the internal control review report prepared by our internal control advisers, our Board considers that it is necessary to enhance our current internal control measures in order to continuously improve our corporate governance and to prevent future non-compliance, we have adopted or will adopt upon the following measures:

- (i) We will establish an audit committee prior to the [●], which will establish formal arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Rules and all relevant laws and regulations.
- (ii) In November 2013, we established an internal control department led by our head of internal control, Mr. Ng Siu Kwan ("Mr. Ng"), who is responsible for monitoring and overseeing daily operation of our internal control matters. Mr. Ng was trained as a professional accountant and has extensive experience in auditing. Prior to joining our Group in February 2013, he worked in Deloitte Touche Tohmatsu since 2001 and left as a senior audit manager in 2012, during which his duties included conducting statutory audit as well as reviewing internal control and financial reporting procedures for companies in Hong Kong and overseas. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Our Group will expand our internal control department by employing one or two more staff with auditing or relevant experience to assist Mr. Ng and conduct regular internal control reviews on our Group's operations. In order to preserve the independence of our internal control function, Mr. Ng will report to the audit committee directly on a quarterly basis.

With the assistance of our external legal advisers as to Hong Kong and PRC laws and compliance adviser, our internal control department aims to ensure that our Group's operations are in compliance with the applicable laws, rules and regulations. It will conduct regular internal control reviews on our operations and recommend remedial plans to our audit committee, which will then advise our Board on the implementation of any remedial plans should there be any internal control deficiencies. Our Board will make final decisions on the implementation of the remedial plans. To ensure all the remedial plans are implemented, our internal control department will follow up and monitor the implementation and report to the audit committee about the progress and results of the remedial plans. Any material internal control failings, weaknesses or deficiencies identified during review process and relevant follow up or remedial measures (if applicable) taken by our Group will be disclosed in our annual report.

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Our internal control department have adopted various internal control review measures, including (i) reviewing the table prepared and updated by our finance department and human resources and administration department which sets out the deadlines for statutory filings or payment submissions under the Companies Ordinance, Inland Revenue Ordinance or any other relevant laws and regulations in Hong Kong and the PRC to ensure all such filings or submissions are made in a timely manner; and(ii) reviewing our internal operational manual and any other internal approval policies and procedures to ensure our on-going compliance. Our legal advisers as to Hong Kong and PRC laws will also (a) assist our Group to review our internal operational manual and other internal approval policies and procedures; (b) advise on any updates in respect of the compliance matters; and (c) recommend any implementation or remedial plans to enhance our internal control system. We will continue to review our operations and procedures with a view to further enhance our on-going compliance and consider to recruit more personnel with relevant skills, experience or qualifications for our internal control department if necessary.

(iii) Our internal control measures, policies and procedures have been codified in our new internal operational manual since July 2013, which have been adopted and implemented by us, after taking into account the comments from our Internal Control Adviser. Further, such internal operational manual and handbooks will be reviewed by our internal control department on an on-going basis.

(iv) [●]

(v) We will appoint [●] as our Hong Kong legal advisers upon the [●] to advise us on compliance with the [●] and the applicable Hong Kong laws and regulations and such engagement will be reviewed annually.

We will appoint [●] & Gongcheng as our PRC legal advisers upon the [●] to advise us on compliance with the applicable PRC laws and regulations and such engagement will be reviewed annually.

(vi) Our Company has arranged for our Directors to attend training sessions in July 2013 conducted by our legal advisers as to Hong Kong laws regarding director's duties and continuing obligations of listed companies under the [●] and the laws of Hong Kong.

(vii) We will further provide various training programs, with the support of our Hong Kong legal advisers, for our Directors and members of senior management to update them on the relevant Hong Kong laws and regulations, which are relevant to the compliance of our Company as a listed company. Subjects of such trainings programs may include duties and continuing obligations of [●] and its directors, corporate governance under the [●], internal control, disclosure of interests, [●] under the [●] and other compliance matters. In addition, our PRC legal advisers will provide training

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programs for our Directors and members of senior management on various compliance matters that relate to the development in company law, architecture law, taxation law, foreign exchange law and labour contract law of the PRC, with particular focus on (a) the duties of the directors and members of senior management on corporate governance, and (b) the PRC laws and regulations applicable to architectural design business, from time to time, as and when needed. For other employees of our Group, we will provide training programs, with the support of our PRC legal advisers, to enhance our employees' knowledge on the latest PRC laws and regulations in respect of architectural design industry.

As the root causes for our past non-compliance incidents were due to unintended and inadvertent omission of the relevant officers as a result of inadequate understanding of the relevant regulatory requirements, rules and practices and lack of proper system and control to keep track of our compliance status, we are of the view that (i) our enhanced internal control measures; (ii) the engagement of external professional advisers to advise us on compliance matters; (iii) the provision of ongoing trainings to our Directors and members of senior management will enable our Group to strengthen our control environment both at the working level and at the monitoring level based upon which the [●] considers that these measures should be adequate and effective to ensure our Group's ongoing compliance with the relevant rules and regulations in Hong Kong and the PRC.

Views of our Directors and the [●]

As summarised in the paragraphs above, our Group has adopted and implemented certain corporate governance and internal control and measures to prevent any future breaches or non-compliance incidents and ensure on-going compliance with the relevant laws and regulations and delegated internal control works to experienced personnel with relevant qualifications. In addition, we will engage external professional advisers to advise us on compliance matters from time to time if required. On such basis, our Directors are of the view, and the [●] concurs that, these measures are sufficient and effective to ensure ongoing compliance with relevant laws and regulations by our Group.

In addition, having considered the following:

- (i) the non-compliance matters disclosed are not involving fraud or deceit by our Directors;
- (ii) the non-compliance matters disclosed are not matters with significant financial impacts on our Group and we were not subject to any fines or penalties regarding the non-compliance matter during the Track Record Period and up to the Latest Practicable Date; and

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- (iii) non-compliance of LWK Guangzhou was an isolated and one-off event as we have passed the 2012 annual inspection for wholly foreign-owned enterprise (外商投資企業聯合年檢) in 2013,

our Directors are of the view, and the [●] concurs with their view, that these past non-compliance incidents do not involve any dishonesty on the part of our Directors or impugn on their integrity or competence and do not affect their suitability to act as directors of a listed issuer under [●] of the [●], and the suitability for [●] of our Company under [●] of the [●].

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to us to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial conditions.