
SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

OVERVIEW

The history of our Group dates back to 1975 when Mr. Tony Wong and an individual acquainted with him, namely Mr. Lam Kam Kuen, established UECL in Hong Kong. In the early years, we were principally engaged in the trading of fire protection materials and woodworking machines and provision of concrete repairs services in Hong Kong. UEL, a member of our Group obtained a licence from a manufacturer in the United Kingdom for the manufacturing and distribution of fire protection materials in 1986. In the late 1980s to 1990s, Mr. Tony Wong recognised the prospects of the civil engineering industry in Hong Kong and decided to explore business opportunities in undertaking civil engineering projects in Hong Kong. Mr. Tony Wong invited Mr. Kwong, an experienced engineer, to join us in 1988 and subsequently our Group acquired the entire equity interest in Kwan On in 1993 from an Independent Third Party and started to act as a main contractor in the provision of waterworks, roads works and drainage services and site formation services in Hong Kong.

We are principally engaged as a main contractor in the provision of (i) waterworks engineering services; (ii) road works and drainage services; (iii) LPM Services; and (iv) building works in Hong Kong. Our first contract for public sector was 17/WSD/93, which was awarded by WSD in 1994. We are also engaged in site formation works for the public and private sectors in Hong Kong.

Licences and certificates held by our Group

The following table sets out the principal licences and certificates held by members of our Group as an approved contractor as at the Latest Practicable Date:

| Relevant authority | Relevant List | Licence/ Certificate | Holder | Date of expiry (Note) |
|---------------------------|---|---------------------------------|---------------|----------------------------------|
| WBDB | Approved Contractors for Public Works – Waterworks Category | Group C (confirmed) | Kwan On | Not applicable |
| WBDB | Approved Contractors for Public Works – Roads and Drainage Category | Group C (confirmed) | Kwan On | Not applicable |

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| Relevant authority | Relevant List | Licence/ Certificate | Holder | Date of expiry (Note) |
|--------------------|---|---------------------------|---------|--------------------------|
| WBDB | Approved Contractors for Public Works – Site Formation Category | Group B (confirmed) | Kwan On | Not applicable |
| WBDB | Approved Contractors for Public Works – Buildings Category | Group A (probationary) | Kwan On | Not applicable |
| WBDB | Approved Suppliers of Materials and Specialist Contractors for Public Works – Landslip Preventive/ Remedial Works to Slopes/Retaining Walls | Confirmed | Kwan On | Not applicable |

Note: These licences granted by WBDB do not have specified expiry dates and their retention are subject to fulfilment of the criteria provided in the ETWB Handbook and regulatory actions taken by WBDB.

Kwan On and UEL also hold other licences and certificates granted by BD and EMSD. Please refer to the sub-section headed “Licences and certificates held by our Group” under the section headed “Business” in this prospectus for further details.

Our business operations

During the Track Record Period, most of the works undertaken by us were civil engineering projects for the public sector. Revenue generated from Government contracts, including those awarded by WSD, CEDD, ArchSD and DSD, represented approximately 95.5%, 97.7% and 99.8%, respectively of our total revenue for each of the two years ended 31 March 2014 and the six months ended 30 September 2014. The duration of our projects for the public sector generally ranged from 5 months to 48 months, depending on the size of the contract and the complexity of the works undertaken. Projects undertaken by us for the private sector generally included slope stabilization, upgrading and remedial works for HA, schools, hospitals and private residences.

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A table summarizing the number of tenders submitted and awarded to our Group and the overall success rate in each year during the Track Record Period and up to the Latest Practicable Date is set out below:

| | Number of tenders submitted | Number of contracts awarded | Overall success rate (%) |
|---|--|--|---|
| Year ended 31 March 2013 | 20 | 2 | 10.0 |
| Year ended 31 March 2014 | 34 | 8 | 23.5 |
| From 1 April 2014 to the Latest Practicable Date | 29 | 2 | 6.9 |

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We had completed 13 projects for both public and private sectors in Hong Kong with a total value of works certified of approximately HK\$833.91 million during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, we had 13 projects in progress, of which 3 were tendered by our Group's joint venture or joint operations.

1. Contracts tendered by Kwan On

| Contract number | Customer | Particulars of the contract | Contract period | Extended date for completion | Reason for extension of time | Estimated contract sum | Value of works certified | Percentage of works certified | Outstanding contract value | Revenue expected to be recognised | |
|-----------------|----------|---|---------------------------------------|------------------------------------|------------------------------|------------------------|--------------------------|-------------------------------|----------------------------|-----------------------------------|---------------------------|
| | | | | | | | | | | Year ending 31 March 2015 | Year ending 31 March 2016 |
| GE/2010/21 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Packages I and M, Landslip prevention and mitigation works in Wan Chai | 11 November 2011 to 11 May 2014 | 15 January 2015 <i>(Note 1)</i> | Inclement weather | HK\$151.09 million | HK\$145.33 million | 96.2% | HK\$5.76 million | HK\$27.49 million | – |
| 6/WSD/11 | WSD | Construction of water supply system to housing development at Anderson Road | 30 December 2011 to 29 April 2015 | 3 October 2015 | Inclement weather | HK\$147.26 million | HK\$139.75 million | 94.9% | HK\$7.51 million | HK\$2.79 million | HK\$8.92 million |
| 15/WSD/11 | WSD | Replacement and rehabilitation of water mains, stage 4 phase 2 – mains on Outlying Islands | 4 October 2012 to 5 April 2016 | Not applicable | Not applicable | HK\$164.47 million | HK\$74.63 million | 45.4% | HK\$89.84 million | HK\$31.48 million | HK\$9.70 million |
| DC/2012/05 | DSD | Sewerage at Yuen Long Kau Hui and Shap Pat Heung | 6 September 2013 to 6 September 2016 | Not applicable | Not applicable | HK\$142.35 million | HK\$108.03 million | 75.9% | HK\$34.32 million | HK\$41.59 million | HK\$24.66 million |
| KL/2012/03 | CEDD | Kai Tak Development – Stage 4 infrastructure at former north apron area | 19 September 2013 to 2 September 2017 | Not applicable | Not applicable | HK\$830.17 million | HK\$202.32 million | 24.4% | HK\$627.85 million | HK\$182.75 million | HK\$215.10 million |
| GE/2012/11 | CEDD | Landslip Prevention and Mitigation Programme, 2009, Package C, Landslip Prevention and Mitigation Works in Lantau and Hei Ling Chau | 19 November 2013 to 18 November 2015 | Not applicable | Not applicable | HK\$86.82 million | HK\$38.25 million | 44.1% | HK\$48.57 million | HK\$30.10 million | HK\$26.43 million |
| GE/2013/06 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Package J, Landslip Prevention and Mitigation Works in New Territories | 13 December 2013 to 11 June 2015 | Not applicable | Not applicable | HK\$109.26 million | HK\$51.05 million | 46.7% | HK\$58.21 million | HK\$38.53 million | HK\$6.69 million |
| GE/2013/17 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Package M, Landslip Prevention and Mitigation Works in Lantau North | 27 December 2013 to 26 December 2015 | 19 January 2016 | Inclement weather | HK\$75.04 million | HK\$32.28 million | 43.0% | HK\$42.76 million | HK\$34.18 million | HK\$23.49 million |
| 20130375 | HA | Main Engineering Infrastructure in association with the Proposed Developments at Area 56 in Tung Chung | 2 September 2014 to 1 March 2016 | Not applicable | Not applicable | HK\$40.00 million | HK\$3.95 million | 9.9% | HK\$36.05 million | HK\$10.00 million | HK\$29.55 million |
| GE/2013/16 | CEDD | Landslip Prevention and Mitigation Programme, 2008, Package N, Landslip Prevention and Mitigation Works in Sham Wat, Tai O East, Upper Keung Shan and Keung Shan Road East in West Lantau | 18 December 2014 to 19 June 2017 | Not applicable | Not applicable | HK\$208.07 million | – | 0.0% | HK\$208.07 million | HK\$17.85 million | HK\$82.10 million |
| Total | | | | | | HK\$1,954.53 million | HK\$795.59 million | | | | |

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Note:

1. The extended completion date of 15 January 2015 was the date previously agreed with the customer. We had applied to the customer for a further extension of time and such application was being considered by the customer as at the Latest Practicable Date.
2. Outstanding contract value represents the estimated contract sum less value of works certified which has been already recognised as revenue since commencement of contract up to the Latest Practicable Date. Revenue expected to be recognised in the year ending 31 March 2015 represents amount was recognised or to be recognised in our Group's profit and loss for the period from 1 April 2014 to 31 March 2015.

2. Contracts tendered by our Group's joint venture or joint operations

| Contract number | Customer | Tendered by | Particulars of the contract | Contract period | Extended date for completion | Reason for extension of time | Estimated contract sum | Estimated total revenue to be received by our Group | Estimated total expenses to be recognised by our Group | Estimated total profit attributable to our Group |
|-----------------|----------|---------------------|--|--------------------------------------|------------------------------|------------------------------|------------------------|---|--|--|
| 10/WSD/10 | WSD | Kwan On – U-Tech 1 | Replacement and rehabilitation of water mains, Stage 4 Phase 1 – mains in Shatin and Sai Kung | 22 August 2011 to 21 April 2015 | 18 July 2015 | Inclement weather | HK\$276.59 million | HK\$209.68 million | HK\$66.91 million | |
| 4/WSD/11 | WSD | Kwan On – China Geo | Construction of Butterfly Valley Fresh Water Primary Service Reservoir extension and associated mainlaying | 24 September 2013 to 22 January 2017 | 10 March 2017 | Incidental holiday | HK\$285.80 million | HK\$140.23 million | HK\$5.53 million | |
| 9/WSD/13 | WSD | Kwan On – U-Tech 2 | Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2 | 31 December 2013 to 15 October 2016 | 25 October 2016 | Inclement weather | HK\$56.18 million | HK\$26.40 million | HK\$1.69 million | |
| | | | | | | | HK\$618.57 million | HK\$376.31 million | HK\$74.13 million | |

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Note:

The estimated total revenue to be received by our Group represents our Group's participating interest in the estimated contract sum for contract 4/WSD/11 or contract 9/WSD/13 (as the case may be) pursuant to the terms of the agreement entered into between Kwan On and the relevant joint operator, which will be accounted for and recognised as the revenue of our Group in accordance with HKFRS 11. Expenses incurred by the relevant joint operation will be recognised in our Group's financial statements as cost of services based on our Group's participating interests in the relevant joint operation as aforesaid. Hence, the profit attributable to our Group from contracts 4/WSD/11 and 9/WSD/13 will be the revenue less the expenses recognised respectively.

For further details of the respective accounting treatments of our joint venture and joint operations, please refer to the subsection headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under the section headed "Business" in this prospectus.

For details of the projects undertaken by us, please refer to the subsection headed "Contracts completed and contracts in progress" under the section headed "Business" of this prospectus.

The operational procedures for our principal business are largely identical and generally include (i) project identification; (ii) preparation and submission of tender document or quotation; (iii) award of contracts by our customer; (iv) formation of a project management team; (v) procurement of required materials; (vi) assignment of works to appointed subcontractors; (vii) project implementation by direct labour of our Group or by subcontractors (as the case may be); (viii) inspection; (ix) application for payment and certification; (x) release of payment by our customer; and (xi) release of payment to subcontractors (if any). During the Track Record Period, our contracts for the public sector were tendered by and awarded to (i) Kwan On, a member of our Group which holds the relevant licences granted by WBDB; or (ii) an unincorporated joint venture formed by Kwan On and U-Tech, namely Kwan On – U-Tech 1; or (iii) the joint operations formed by Kwan On and its business partners, namely Kwan On – China Geo and Kwan On – U-Tech 2. When a contract is awarded to Kwan On, Kwan On may undertake the contract by itself or enter into a subcontracting agreement with any one of UEL, UECL and UEWL which would execute the contract as subcontractor. As for the contract 10/WSD/10, Kwan On - U-Tech 1 undertakes part of the works while subcontracts the remaining works to subcontractors and U-Tech is one of its subcontractors. As for the contracts 4/WSD/11 and 9/WSD/13, the relevant joint operation subcontracts all of the works to subcontractor(s) who will be responsible for the necessary labour, plant, materials and all other expenses to complete the project. Kwan On – U-Tech 1 is classified and accounted for as a subsidiary of Kwan On and accordingly its financial position and results of operation have been consolidated into the financial statements of our Group in accordance with HKFRS 10 "Consolidated Financial Statements". Our share of revenue and expenses in respect of Kwan On – China Geo arising from contract 4/WSD/11 and Kwan On – U-Tech 2 arising from contract 9/WSD/13 have been recognised in accordance with HKFRS 11 "Joint Arrangements". For further details of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2 and their respective accounting treatments, please refer to the subsection headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under the section headed "Business" in this prospectus.

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Depending on our manpower availability, the expertise required, the level of complexity of work involved, cost effectiveness and licencing requirements, we may appoint subcontractors to carry out certain parts of the contract works. We have maintained a list of approved subcontractors, the selection of which are based on a set of criteria including previous job references, reputation in the industry, price competitiveness, quality of work and skill sets of workers of the subcontractors. As at the Latest Practicable Date, there were over 20 subcontractors on our list of approved subcontractors, with our five largest subcontractors having maintained business relationship with us for up to nine years. In order to closely monitor the performance of the subcontractors and to ensure that the subcontractors comply with the requirements and provisions set out in the respective main contracts and the relevant laws, rules and regulations, we have specific subcontractor management plan for each contract undertaken by us. Our project manager is responsible for supervising and monitoring the works provided by our subcontractors and for ensuring their compliance with the requirements and provisions of respective main contract and the relevant laws, rules and regulations. For details of the arrangement between our subcontractors and us, please refer to the subsection headed “Control over subcontractors” under the section headed “Business” in this prospectus.

During the Track Record Period, the principal construction materials used by our subcontractors and us include various kinds of pipes (including mild steel pipes, ductile iron pipes and polyethylene pipes), fittings, steel bars, concrete and asphalt, which are sourced from a number of suppliers. During the Track Record Period, there were over 200 materials suppliers on our approved list of suppliers. Before admitting a supplier to our approved list, we will take into account a host of factors including its product quality, time of delivery, job references and reputation in the industry.

LEGAL PROCEEDINGS AND NON-COMPLIANCE MATTERS

As at the Latest Practicable Date, our Group was engaged in seven outstanding civil litigation cases proceedings in connection with accidents happened at our work sites, one outstanding civil litigation case in connection with an alleged breach of certain oral agreement by Kwan On and one criminal prosecution case in connection with our alleged violation of the Construction Sites (Safety) Regulations (Chapter 592 of the Laws of Hong Kong). Please refer to the subsection headed “Legal proceedings” under the section headed “Business” in this prospectus for further details. The Indemnifiers have undertaken to jointly and severally indemnify and at all times keep our Group indemnified against all the costs and liabilities incurred by our Group in relation to those outstanding or unsettled legal and arbitration proceedings, investigations, prosecutions and/or claims, to the extent that such costs and liabilities are resulting from or by reference to any event or circumstances occurred on or before the Listing Date (which, for the avoidance of doubt including any claims which filed after the Listing Date) that exceed the relevant amounts of provisions made in our Company’s audited accounts for the Track Record Period and are not otherwise indemnified by any other parties under any contractual obligations.

The former usage of our Group’s previous head office in Chai Wan and the present usage of our Group’s site office in North Point was/is not in strict compliance with the user provisions stipulated in the respective occupation permits issued by the BD as well as the respective Government leases granted by the Government to which the relevant properties are held subject. Please refer to the subsection headed “Non-compliance matters” in the section headed “Business” in this prospectus.

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COMPETITIVE LANDSCAPE

We compete primarily with those contractors who hold licences of the same status under the same categories on the Contractor List and the Specialist List as we do. Based on the information available from WBDB's website as at the Latest Practicable Date, Kwan On, a member of our Group, is one of the 22 Group C contractors (confirmed) under the category of "Waterworks". Kwan On is also one of the approved contractors among the 41 Group C contractors (confirmed) under the category of "Road and Drainage". Group C contractors are the highest ranking contractors in terms of tender limits, and can tender for public works with contracts sum of any value exceeding HK\$185 million. Furthermore, Kwan On was also upgraded to Group B contractors (confirmed) under the category of "Site Formation" in June 2013. In addition, there were 23 approved contractors with confirmed status listed under the category of "Landslip Preventive/Remedial Works to Slopes/Retaining Walls" on the Specialist List. Kwan On has been one of the approved contractors with confirmed status under such category since 2000. Please refer to the subsection headed "Competition" under the section headed "Business" in this prospectus for further details of competition landscape.

KEY BUSINESS DRIVERS

Our business growth is mainly driven by: (i) the Government's continuous expenditure on civil engineering works in Hong Kong; (ii) our established operating history and proven track record; and (iii) our business strategy to diversify our source of income by leveraging the different types of licences held by Kwan On.

COMPETITIVE STRENGTHS

We believe our main competitive strengths are: (i) our established operating history and proven track record; (ii) our diversified experience and capabilities; (iii) our experienced management team; and (iv) our stable relationships with our subcontractors and construction materials suppliers.

BUSINESS STRATEGIES

Our business objective is to achieve sustainable growth in our current businesses by strengthening our position as a main contractor in the provision of civil engineering services in Hong Kong. Our Directors intend to achieve our Group's business objectives by (i) expanding our business scale and in order to achieve sustainable growth in our business after the completion of the R&R Programme in 2015, our Group intends to diversify our source of income by tendering more contracts with higher contract value under the categories of "Roads and Drainage" and "Site Formation" since Kwan On had been upgraded to Group C contractors (confirmed) under the "Roads and Drainage" category and Group B contractors (confirmed) under the "Site Formation" category in February and June 2013 respectively, and hence our Group would be eligible to tender for projects under these two categories of public works with larger contract value; (ii) further strengthening our manpower; and (iii) acquisition of additional equipment and machinery to strengthen our ability of project implementation. Please refer to the section headed "Risk Factors" in this prospectus for the risk as to our source of income.

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FINANCIAL INFORMATION

The selected items of combined statements of comprehensive income, the combined statements of financial position and the combined statements of cash flow of our Group during the Track Record Period are summarised below, which are extracted from the accountant's report set forth in Appendix I to this prospectus.

Selected items of combined statements of comprehensive income

| | Year ended 31 March | | Six months ended 30 September | |
|--|---------------------|-----------------|----------------------------------|-----------------|
| | 2013 | 2014 | 2013 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | | | |
| Revenue | 311,880 | 393,283 | 153,485 | 332,363 |
| Gross profit | 29,927 | 51,617 | 21,267 | 19,276 |
| Profit before income tax expense | 9,490 | 29,418 | 9,044 | 8,616 |
| Profit and total comprehensive income for the year/period | 5,728 | 23,628 | 6,278 | 7,435 |
| Profit and total comprehensive income for the year/period attributable to our shareholders | 1,483 | 20,043 | 4,338 | 4,186 |

We derive our revenue from the provision of (i) waterworks engineering services; (ii) road works and drainage services; (iii) LPM Services; and (iv) building works. Set out below is an analysis of the revenue during the Track Record Period by categories of services provided:

| | Year ended 31 March | | Six months ended 30 September | |
|-------------------------|---------------------|-----------------|----------------------------------|-----------------|
| | 2013 | 2014 | 2013 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | | | |
| Waterworks engineering | 158,892 | 208,084 | 87,007 | 119,767 |
| Road works and drainage | 43,237 | 107,914 | 31,981 | 135,043 |
| LPM Services | 109,751 | 63,335 | 31,116 | 74,603 |
| Building works | — | 13,950 | 3,381 | 2,950 |
| | <u>311,880</u> | <u>393,283</u> | <u>153,485</u> | <u>332,363</u> |

Our revenue for the year ended 31 March 2014 increased by approximately 26.1% or approximately HK\$81.4 million compared to that for the year ended 31 March 2013, which was mainly attributable to the increase in revenue contribution from waterworks engineering category, road works and drainage category and building works category amounting to

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approximately HK\$49.2 million, HK\$64.7 million and HK\$14.0 million respectively, net of decrease in LPM Services of approximately HK\$46.4 million. Our net profit increased from approximately HK\$5.7 million for the year ended 31 March 2013 to approximately HK\$23.6 million for the year ended 31 March 2014. The improvement was mainly attributable to the increase in gross profit generated of approximately HK\$21.7 million as a result of decrease in expected loss arising from the project TK/2008/01 amounted to approximately HK\$8.8 million, net of increase in staff costs of approximately HK\$4.3 million.

Our revenue for the six months ended 30 September 2014 increased by approximately HK\$178.9 million or approximately 116.5% compared to that for the six months ended 30 September 2013. The leap in revenue was mainly due to an increase in revenue contribution from the contract KL/2012/03 and 3 contracts for LPM Services namely contracts GE/2012/11, GE/2013/06 and GE/2013/17, which together generated revenue of approximately HK\$159.8 million. Our net profit increased from approximately HK\$6.3 million for the six months ended 30 September 2013 to approximately HK\$7.4 million for the six months ended 30 September 2014, which was attributable to the increase in service income and government grants received and decrease in tax expense as a result of utilisation of tax losses brought forward.

Our gross profit for the year ended 31 March 2014 increased by approximately HK\$21.7million compared to that for the year ended 31 March 2013, while our gross profit for the six months ended 30 September 2014 decreased by HK\$2.0 million compared to that for the six months ended 30 September 2013. Such changes in the gross profit was due to (i) the increase in revenue as explained above; and (ii) the changes in the gross profit margin which is further discussed below.

Our gross profit margins by categories of work performed during the Track Record Period are set out below:

| | Year ended 31 March | | Six months ended 30 September | |
|-------------------------|---------------------|-------|----------------------------------|--------|
| | 2013 | 2014 | 2013 | 2014 |
| | | | <i>(Unaudited)</i> | |
| Waterworks engineering | 14.8% | 14.7% | 9.0% | -2.4% |
| Road works and drainage | -10.4% | 22.0% | 38.6% | 10.6% |
| LPM Services | 11.6% | -5.0% | 4.2% | 9.5% |
| Building works | – | 14.9% | 4.8% | -28.4% |
| Overall | 9.6% | 13.1% | 13.9% | 5.8% |

Our overall gross profit margin improved from approximately 9.6% for the year ended 31 March 2013 to approximately 13.1% for the year ended 31 March 2014. The increase was due to (i) significant improvement in gross profit margins generated from road works and drainage projects and (ii) contribution from projects in building works category awarded to us during the year ended 31 March 2014. The gross profit margin for waterworks engineering category remained at a similar level during the year ended 31 March 2013 and 2014. The gross profit margin for waterworks engineering category dropped from approximately 9.0% for the six months ended 30 September 2013 to approximately -2.4%

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for the six months ended 30 September 2014. The drop was due to increase in costs incurred, in particular, for contracts 24/WSD/09 and 6/WSD/11. Please refer to the section headed “Financial information” in this prospectus for further details.

The gross profit margin for road works and drainage category improved significantly from approximately -10.4% for the year ended 31 March 2013 to approximately 22.0% for the year ended 31 March 2014 because of decrease in expected loss arising from the project TK/2008/01 amounted to approximately HK\$8.8 million. The expected reduction in loss for project TK/2008/01 was due to a claim made by us against the customer for revision of the contract sum by approximately HK\$10.0 million. We continued to negotiate with the customer for settlement. The customer informed us in writing that they are working towards the target of end-March 2015 for the settlement of the claim for project TK/2008/01. After disregarding the reduction in expected loss for project TK/2008/01, the adjusted gross profit margin for road works and drainage category for the year ended 31 March 2014 was approximately 15.2%. The increase in the gross profit margin for road works and drainage category for the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 was mainly attributable to the additional revenue generated from the variation orders received from the customer in respect of project DC/2012/05. Gross profit margin for road works and drainage decreased from approximately 38.6% for the six months ended 30 September 2013 to approximately 10.6% for the six months ended 30 September 2014. The high gross profit margin for the six months ended 30 September 2013 was attributable to a reversal of expected loss of approximately HK\$8.8 million for project TK/2008/01.

The decrease in gross profit margin for LPM Services category was due to payment of subcontracting charges for certain variation orders for the project SX X121 of approximately HK\$1.0 million whilst contract revenue for the work done had not been recognised during the year ended 31 March 2014. The revenue in relation to these variation orders will be recognised as income upon finalising the rate with the customer. In addition, the estimated contract sum for project GE/2011/03 has been adjusted downwards because of reduction in the quantity of works upon expiry of the contract period and payment to a subcontractor upon completion of works while income has not been certified and received from the customer. Gross profit margin for LPM Services improved from approximately 4.2% for the six months ended 30 September 2013 to approximately 9.5% for the six months ended 30 September 2014. The improvement was due to increase in gross profit generated from 2 of the 3 new contracts, namely GE/2012/11 and GE/2013/06, which commenced in late 2013.

Gross profit margin for building works was decreased from approximately 4.8% for the six months ended 30 September 2013 to approximately -28.4% for the six months ended 30 September 2014. The negative gross profit recorded in the six months ended 30 September 2014 was due to (i) additional subcontracting fees paid for variation orders for maintenance works after completion of main works for a private sector project and (ii) extra costs for additional staff assigned to a demolition project.

Our Group had been awarded two new contracts in the building works category during the year ended 31 March 2014, which generated gross profit of approximately HK\$2.1 million in total.

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Our net profit margins during the Track Record Period is set out below:

| | Year ended 31 March 2013 | 2014 | Six months ended 30 September 2014 |
|-------------------|-------------------------------------|-------------|---|
| Net profit margin | 1.8% | 6.0% | 2.2% |

Our net profit margins were 1.8%, 6.0% and 2.2% for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. The increase was mainly due to increase in net profit for the year ended 31 March 2014 generated from two projects KL/2012/03 and DC/2012/05, which contributed approximately HK\$13.9 million in total and decrease in expected loss recognised of project TK/2008/01 amounted to approximately HK\$8.8 million. The decrease in net profit margin for the six months ended 30 September 2014 was mainly due to costs incurred for projects, including 24/WSD/09 and 6/WSD/11 exceeding amounts certified by customers. The remaining amounts were expected to be certified and received upon finalisation of the missing items and variation orders with customers.

Please refer to the section headed “Financial Information” in this prospectus for further details.

Selected items of combined statements of financial position

| | As at 31 March 2013 | 2014 | As at 30 September 2014 |
|----------------------------------|--------------------------------|-----------------|--|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | 18,492 | 15,066 | 24,569 |
| Current assets | 111,834 | 189,741 | 222,631 |
| Non-current liabilities | 4,691 | 750 | 684 |
| Current liabilities | 138,032 | 186,226 | 221,250 |
| Net current (liabilities)/assets | (26,198) | 3,515 | 1,381 |
| Net (liabilities)/assets | (12,397) | 17,831 | 25,266 |

As at 31 March 2013, we had net current liabilities and net liabilities amounted to approximately HK\$26.2 million and approximately HK\$12.4 million respectively which were attributable to the recognition of the expected losses arising from projects TK/2008/01, 26/WSD/06 and 6/WSD/06 as amounts due to customers under current liabilities. The losses of these three projects were recognised prior to the Track Record Period which amounted to approximately HK\$7.9 million, HK\$14.6 million and HK\$18.8 million respectively but were brought forward to the year ended 31 March 2013. The total outstanding bank overdrafts and borrowings as at 31 March 2013 amounted to approximately HK\$47.6 million, of which bank loans amounting to approximately HK\$10.7 million were not repayable within one year but contained a repayment on demand clause. Although our Group has no reason to believe

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that the banks will demand immediate repayment of these bank loans which are expected to be repaid by us on schedule, such loans were classified as current liabilities thereby resulting in a net current liabilities position for our Group as at 31 March 2013.

As the minimum employed capital and working capital of Kwan On fulfill the financial criteria for retention on the Contractor List and the Specialist List, the Group's net liabilities recorded as at 31 March 2013 did not affect Kwan On's status as an approved contractor for public works.

Selected items of combined statements of cash flows

| | Year ended 31 March | | Six months ended 30 September |
|---|----------------------------|-----------------|--------------------------------------|
| | 2013 | 2014 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash (used in)/from operating activities | (36,822) | 73,587 | (17,856) |
| Net cash (used in)/from investing activities | (12,526) | 4,378 | (18,384) |
| Net cash from/(used in) financing activities | 6,533 | 12,068 | 11,352 |
| Cash and cash equivalents at end of year/period | (22,992) | 67,041 | 42,153 |

Please refer to the section headed "Financial information" in this prospectus for further details.

Selected key financial ratios

| | Year ended 31 March | | Six months ended 30 September |
|-------------------|----------------------------|-------------|--------------------------------------|
| | 2013 | 2014 | 2014 |
| Current ratio | 0.8 | 1.0 | 1.0 |
| Net profit margin | 1.8% | 6.0% | 2.2% |
| Return on equity | -46.2% | 132.5% | 29.4% |
| Return on assets | 4.4% | 11.5% | 3.0% |
| Gearing ratio | -387.8% | 234.7% | 233.9% |
| Interest coverage | 4.5 | 11.5 | 10.5 |

Please refer to the paragraph headed "Key financial ratios" under the section headed "Financial information" in this prospectus for further details.

SUMMARY

LISTING EXPENSES

Listing expenses are estimated to be approximately HK\$18.6 million, which will be borne by the Vendors and us in equal share, each bearing approximately HK\$9.3 million. Of such amount of approximately HK\$18.6 million, (i) approximately HK\$2.4 million is attributable to the issue of the New Shares which is to be accounted for as a deduction from equity; (ii) approximately HK\$2.4 million will be borne by the Vendors for the sale of the Sale Shares and set-off against the listing expenses of our Company; and (iii) the remaining amount of approximately HK\$13.8 million is to be charged to profit or loss of our Group. Although the amount of approximately HK\$13.8 million is also borne by our Company and the Vendors in equal share, such amount is incurred or to be incurred by our Company. Therefore, the entire amount of approximately HK\$13.8 million is recognised or to be recognised as our expenses and charged to our profit or loss, of which approximately HK\$2.9 million, HK\$3.0 million and HK\$1.4 million has been recognised as expenses and charged to profit or loss of our Group for each of the two years ended 31 March 2014 and the period from 1 April 2014 up to the Latest Practicable Date respectively and the remaining amount of approximately HK\$6.5 million is expected to be recognised as expenses since the Latest Practicable Date to 31 March 2015. Accordingly, the financial performance of our Group for the year ending 31 March 2015 will be affected. The Vendors have agreed to reimburse their share of the Listing expenses of approximately HK\$6.9 million to our Company upon Listing in their capacity as shareholders. Such amount of approximately HK\$6.9 million, when received by our Company upon Listing, will be accounted for as a capital contribution to our Company, and will not be set-off against the approximately HK\$13.8 million recognised and to be recognised as our expenses in our profit or loss.

In accordance with paragraph 7 of HKAS 1, the total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Since the reimbursement of approximately HK\$6.9 million is not a transaction arising from our ordinary activities, the reimbursement should be treated as a change in our Company's equity resulting from transaction with the Vendors in their capacity as shareholders. As such, treating the reimbursement of approximately HK\$6.9 million from the Vendors as a capital contribution to our Company without setting off against the approximately HK\$13.8 million recognised and to be recognised as our expenses in our profit or loss, is in accordance with HKAS 1.

Having considered that (i) transaction costs that are directly attributable to the issue of New Shares have been accounted for as a deduction from equity; (ii) expenses that do not meet the definition of a transaction cost have been charged to profit or loss; (iii) for costs that relate jointly to both the issue of the New Shares and the listing of the existing Shares, our Company uses the ratio of the number of the New Shares to the existing Shares as an allocation basis, and the costs allocated to the listing of the existing Shares are charged to profit or loss; and (iv) our Company has deferred the costs on the statement of financial position until the issue of the New Shares is recognised, where the deferred costs are subsequently reclassified as a deduction from equity and if the New Shares are not subsequently issued, the transaction costs are recognised as an expense in the profit or loss,

SUMMARY

our Directors are of the view that the accounting treatment of our Listing expenses has complied with HKAS 32 and followed the technical update on “Accounting for transaction costs incurred in initial public offerings” published by the HKICPA.

RECENT DEVELOPMENT

Since 1 October 2014 up to the Latest Practicable Date, we had submitted 8 tenders in relation to waterworks engineering services, LPM Services and road works and drainage services to the relevant Government departments. One of the said tenders had been unsuccessful and the results of the remaining tenders were unknown.

After 30 September 2014 and up to the Latest Practicable Date, five independent safety audits have been carried out by the external registered safety auditor to assess our safety management system and a satisfactory standard of compliance with statutory safety obligations was observed by the auditor. During the same period, other than a non-fatal accident which occurred at one of our work sites during non-business hours in November 2014, brief details of which are set out in the subsection headed “Safety Policy” under the section headed “Business” in this prospectus, we had not had any other reportable accidents at our work sites.

Our financial performance for the year ending 31 March 2015 will be affected by the expenses incurred in relation to the Listing, which are one-off. It is estimated that the Listing expenses as to approximately HK\$7.9 million will be recognised as expenses in the year ending 31 March 2015. Our unaudited revenue for the three months ended 31 December 2014 was higher than that for the three months ended 31 December 2013. Our unaudited subcontracting costs for the three months ended 31 December 2014 were higher than that for the three months ended 31 December 2013. Our unaudited revenue was higher than our unaudited subcontracting costs for the three months ended 31 December 2014. We achieved a gross profit for the three months ended 31 December 2014. Save as disclosed in the subsections headed “Safety Policy” and “Legal proceedings” under the section headed “Business” in this prospectus, after 30 September 2014 and up to the Latest Practicable Date, there was no material change in the status of outstanding litigations and claims.

Save for the Listing expenses to be recognised in the year ending 31 March 2015, our Directors confirm that since 30 September 2014 (being the date to which the latest financial information of our Group was made up and reported in the accountant’s report set out in Appendix I to this prospectus) and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Placing and the Capitalisation Issue (but without taking into account any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme), our Company will be owned as to (i) approximately 40.41% by Fortune Decade, which is wholly owned by Mr. Tony Wong, an executive Director; (ii) approximately 34.59% by Twilight Treasure, which is owned as to 87.5% by Success Ally and 12.5% by Decade Success; and (iii) 25% by public Shareholders.

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Success Ally is a company incorporated in the BVI which is wholly owned by Mr. Tony Wong. Decade Success is a company incorporated in the BVI which is wholly owned by Mr. Kwong, an executive Director.

In addition, by virtue of Mr. Newton Wong's interests in Garwealth and Mr. Andy Wong's interests in Fortune Peace, Bright Link and Success Ally during the Track Record Period, both Mr. Newton Wong and Mr. Andy Wong are considered to be our Controlling Shareholders under the GEM Listing Rules. Mr. Newton Wong and Mr. Andy Wong are the sons of Mr. Tony Wong. Our Controlling Shareholders entered into a confirmatory deed on 30 July 2013 confirming that each of them has been acting in concert with each of UEL, UECL, UEWL, UBCL, UCRL, UFCL and Kwan On since 1 April 2011.

The abovenamed Shareholders do not, directly or indirectly, carry on, participate or engage in, nor are they otherwise interested in, any business which is or may be in competition with our business. Please refer to the section headed "Controlling Shareholders" in this prospectus for further details of our Controlling Shareholders.

CONNECTED TRANSACTIONS

During the Track Record Period, UEL, as a lessee, has entered into two lease agreements with the connected persons of our Company which are expected to continue after the Listing, namely: (i) a lease from Shiu Mau in relation to two industrial units and a car parking space in Hong Kong and (ii) a lease from Ms. Chiu in relation to staff quarters in Hong Kong. In addition, our Group has also entered into various sub-contracting arrangements with U-Tech, which is regarded as a connected person of our Company, and such arrangements are expected to be completed after Listing. Please refer to the section headed "Connected Transactions" in this prospectus for further details.

DIVIDEND POLICY

No dividend had been paid or declared by our Company since its incorporation. Given the accumulated losses recorded by our Group of HK\$20.2 million as at 30 September 2014, our Directors consider that all earnings will give priority to finance the continuing development of our business such that our Group will not be able to distribute dividends to our Shareholders in the foreseeable future. Any declaration and payment as well as the amount of dividends will be subject to our Group's constitutional documents, the GEM Listing Rules and laws in Hong Kong as well as the approval of the Shareholders. For details of our dividend policy, please refer to the paragraph headed "Dividend policy" under the subsection headed "Dividends and Distributable Reserves" under the section headed "Financial Information" in this prospectus.

PLACING STATISTICS

| | |
|--|--------------------|
| Placing Price | HK\$0.30 per Share |
| Market capitalisation at the Placing Price (<i>Note 1</i>) | HK\$288 million |
| Unaudited pro forma adjusted combined net tangible assets value per Share (<i>Note 2</i>) | HK5.4 cents |

SUMMARY

Notes:

1. The calculation of the market capitalisation of the Shares is based on an issued capital of 960,000,000 Shares, being the aggregate of the number of Shares in issue as at the date of this prospectus and the number of Shares to be issued pursuant to the Capitalisation Issue and the Placing.
2. The unaudited pro forma adjusted combined net tangible asset value per Share has been arrived at after making the adjustments referred to under the sub-section headed “Unaudited pro forma adjusted combined net tangible assets” in the section headed “Financial information” in this prospectus and on the basis of a total of 960,000,000 Shares in issue and to be issued as mentioned herein immediately following completion of the Placing and the Capitalisation Issue. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options that have been granted or may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus or otherwise.

REASONS FOR THE PLACING AND USE OF PROCEEDS

Our Directors believe that the listing of the Shares on GEM will enhance our Group’s profile and the net proceeds from the Placing will strengthen our financial position and will enable us to implement our business plans set out in the section headed “Statement of business objectives and use of proceeds” in this prospectus. Furthermore, a public listing status on the Stock Exchange will offer us access to capital market for corporate finance exercise to assist in our future business development and strengthen our competitiveness.

The net proceeds from the Placing after deducting related expenses, are estimated to amount to about HK\$26.7 million. Our Directors presently intend that the net proceeds will be applied as follows:

- approximately 68.1% of the net proceeds or approximately HK\$18.2 million, for repayment of bank loans;
- approximately 16.4% of the net proceeds or approximately HK\$4.4 million, for the recruitment of staff for project management and technical personnel;
- approximately 8.0% of the net proceeds or approximately HK\$2.1 million, for the purchase of required equipment and machinery; and
- approximately 7.5% of the net proceeds, or approximately HK\$2.0 million, for use as general working capital of our Group.

Among the Placing Shares, there are an aggregate of 120,000,000 Sale Shares offered by the Vendors for sale at the Placing Price. The net proceeds, after deduction of portion of Listing expenses to be borne by the Vendors, to be received by the Vendors from the sale of the Sale Shares will amount to approximately HK\$26.7 million. Our Company will not receive any of the proceeds from the sale of the Sale Shares by the Vendors under the Placing.

SUMMARY

MAJOR RISK FACTORS

Our business operation is subject to a number of risk factors described in the section headed “Risk Factors” in this prospectus. We believe that the following are some of the major risks that may have an adverse effect on us: (i) we rely heavily on the contracts granted by the Government during the Track Record Period, and our business, results of operations and profitability may be adversely affected if we fail to secure contracts from the Government or there is any significant reduction of such contracts in the future; (ii) our financial performance fluctuated significantly during and prior to the Track Record Period. The trend of our financial performance during the Track Record Period may not necessarily reflect our financial performance in the future; (iii) we recorded net current liabilities and net liabilities as at 31 March 2013; (iv) our results of operation depend significantly on our success rate on project tendering and our project management liability; (v) our Group’s business is project based. Our projects are normally awarded through competitive tendering process and therefore there is no commitment from our clients. The profit margin of the project depends on the terms of the contract and may not be regular and consistent; (vi) we are exposed to construction litigation or dispute; and (vii) some of our subcontractors had not entered into written subcontracting agreement with us during the Track Record Period and our interests may not be well protected if any conflict or dispute arises.

As different investors may have different interpretations and standards for determining materiality of a risk, you should read the entire section headed “Risk Factors” in this prospectus carefully before you decide to invest in the Placing Shares.